



Northern Ireland
Assembly

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NIAR 88-17

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Addendum to NIAR 32-16 – *‘The EU Referendum and the potential implications for Northern Ireland’*

1 Introduction

On the 10 February 2016 the Northern Ireland Assembly Research and Information Service published a briefing paper ([NIAR 32-16](#)) which examined the *‘The EU Referendum and the potential implications for Northern Ireland’*. A significant section of this paper was devoted to the potential trade implications of Brexit from Northern Ireland. This section relied upon Her Majesty’s Revenue and Customs (HMRC) data to reach its conclusion. The methodology used to compile this data has recently been revised.

The purpose of this paper is to outline how this methodological change alters the findings of NIAR 32-16.

2 Methodological change

The data used to complete Section 3 of NIAR 32-16 was sourced from HMRC's Regional Trade Statistics Database. As per footnote 19 of that paper (page 7) the data used in that this section was extracted from HMRC's Regional Trade Statistics database on the 13 January 2016. This data was correct at the time of extraction.

However, since the paper's publication, the HMRC published its Q3 UK Regional Trade Statistics Release – dated 6 December 2016 – wherein data was based on the HMRC's new methodology when compiling its Regional Trade Statistics. Full details of the HMRC's methodological change is available in the HMRC publication '*Regional Trade Statistics Differences between old and new methodologies*'¹.

Significantly, this methodological change altered the way in which trade is allocated to the regions. This is outlined in the document linked above:

The previous allocation methodology allocated trade to a region based on where the headquarters of a business is located for VAT/Customs purposes, supplemented an historic survey.

*...We have moved to the methodology used in the Annual Business Survey by the ONS, which uses data in the Inter-Departmental Business Register (IDBR). This allocates the trade of a multi-branch business to different regions based on a proportion of their employees in each region.*²

The outworking of this new methodology has been an adjustment to Northern Ireland's trade data from 2013 onwards. This adjustment affects the conclusions drawn in Section 3 of NIAR 32-16.

3 The impact of HMRC's change on the findings of NIAR 32-16

The analysis in NIAR 32-16 reached two central conclusions regarding Northern Ireland's trade position with the European Union (EU) and the Rest of the World (RoW), using HMRC trade data for the period 2004 to 2014, namely:

- That the EU is Northern Ireland's largest export market (page 9 of NIAR 31-16); and,
- That Northern Ireland exported more to the EU than it imported from it over the period examined with the exception of the 2012 (page 12 of NIAR 32-16).

Both of these conclusions remain true of the period unaffected by the HMRC methodological change (i.e. up to 2012).

From 2013 onwards the first of these statements remains true. HMRC's methodological change did revise Northern Ireland's export figures for the years 2013 and 2014, but

¹HMRC, UK Trade Info, Regional Trade Statistics Differences between old and new methodologies (December 2016) <https://www.uktradeinfo.com/Statistics/OverseasTradeStatistics/AboutOverseastradeStatistics/Documents/Differences%20between%20old%20and%20new%20RTS%20Methodologies.pdf>

² *Ibid* p2

did not alter the overall conclusion of the paper. Table 1 compares the export data used in NIAR 32-16³ with that included in HMRC's data from the fourth quarter of 2016 (Q4 2016).⁴

The table shows that although the value of Northern Ireland's total, EU and RoW exports increased once HMRC's methodological change was applied, the ratio of EU to RoW exports remains in the 60:40 range identified in the initial analysis as set out in NIAR 32-16.

Table 1: Northern Ireland exports 2013 and 2014 using data from pre and post HMRC methodological change (£m)

	2013			2014		
	NIAR 32-16	Q4 2016	Difference	NIAR 32-16	Q4 2016	Difference
EU Exports	3,528	4,210	682	3,630	4,084	454
RoW Exports	2,507	2,844	337	2,347	2,721	374
Total Exports	6,035	7,054	1,019	5,978	6,805	827
% EU	58%	60%	-	61%	60%	-
% RoW	42%	40%	-	39%	40%	-

Source HMRC (2016)

HMRC's methodological change has had a greater impact on Northern Ireland's import data for the years 2013 and 2014. This affects the second major conclusion of NIAR 32-16, that '*Northern Ireland exported more to the EU than it imported from it over the period examined with the exception of the 2012*'. This is demonstrated in Table 2, which outlines changes to Northern Ireland import and balance of trade data pre and post HMRC the methodological change for the years 2013 and 2014.

The table shows that the introduction of the new methodology has led to a significant increase in total imports into Northern Ireland, with all of this net increase in imports coming from the EU. As a result, Northern Ireland's balance of trade with the EU during the years in question has shifted from a trade surplus, whereby Northern Ireland exported more to the EU than it imported, to a large trade deficit, whereby Northern Ireland is now shown to have imported significantly more from the EU than it exported to it in both 2013 and 2014.

³ HMRC, UK Trade Info, RTS Data (extracted 13 January 2016)

<https://www.uktradeinfo.com/Statistics/BuildYourOwnTables/Pages/Table.aspx>

⁴ HMRC, UK Trade Info, UK Regional Trade Statistics Release Quarter4 2016

https://www.uktradeinfo.com/Statistics/RTS/RTS%20Releases/RTS_Q4_2016.xls (09 March 2017)

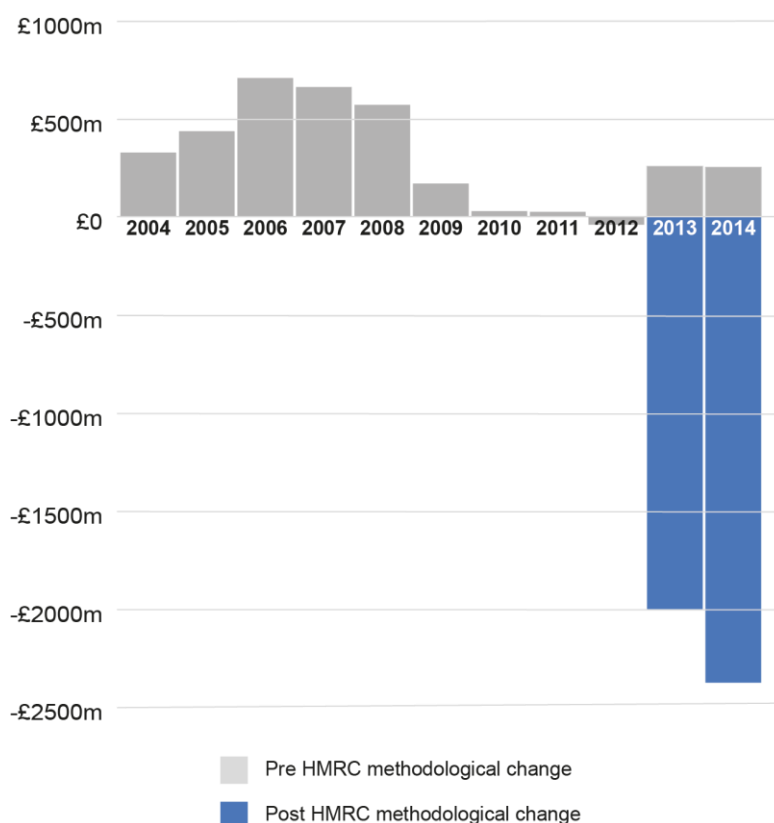
Table 2 Northern Ireland exports, imports and balance of trade 2013 and 2014 using data from pre and post HMRC methodological change (£m)

	2013			2014		
	NIAR 32-16	Q4 2016	Difference	NIAR 32-16	Q4 2016	Difference
EU Exports	3,528	4,210	682	3,630	4,084	454
RoW Exports	2,507	2,844	337	2,347	2,721	374
Total Exports	6,035	7,054	1,019	5,978	6,805	827
EU Imports	3,285	6,099	2,814	3,391	6,327	2,936
RoW Imports	2,603	2,506	- 97	2,621	2,584	- 37
Total Imports	5,888	8,605	2,717	6,011	8,911	2,900
Balance of trade with EU	243	- 1,889	-	239	- 2,243	-

Source HMRC (2016)

The extent of this change is illustrated in Figure 1, which compares Northern Ireland's trade balance with the EU based on the old and new methodologies. From a practical perspective, this change substantially alters the analysis of Northern Ireland's trading relationship with the EU. Under the old methodology, the data shows that trade between Northern Ireland and the EU resulted in £243 million (m) net entering the Northern Ireland economy in 2013. This fell slightly to £239m in 2014. Under the new methodology, the same analysis shows in excess of £1 billion net pounds leaving the NI economy through trade in 2013, rising to more than £2bn in 2014.

Figure 1: Northern Ireland balance of trade with EU pre and post HMRC methodological change



Source HMRC (2016)

Examining the HMRC data in greater detail, it is evident that a significant proportion of this increase in imports into Northern Ireland is traceable to an increase in imports of machinery and transports goods. Table 3 compares Northern Ireland imports data published Q2 2016 (pre methodological change) and Q4 2016 (post methodological change). This data shows that for both years examined, the increase in imports of machinery and transports goods (from Q2 to Q4) accounted for approximately just under 60% of the overall increase in Northern Ireland imports.

Table 3: Northern Ireland imports by industry 2013 and 2014 pre and post HMRC methodological change (£m)

	2013				2014			
	Q2 Data	Q4 Data	Difference	% of total difference	Q2 Data	Q4 Data	Difference	% of total difference
Food and Live Animals	1,052	1,813	761	28%	1,062	1,890	828	28%
Beverages and Tobacco	365	225	-140	-5%	346	198	-148	-5%
Crude Materials	208	280	72	3%	219	319	100	3%
Mineral Fuels	158	503	345	13%	151	511	360	12%
Animal and Vegetable Oils	45	59	14	1%	46	58	12	0.4%
Chemicals	561	824	263	10%	549	830	281	9%
Manufactured Goods	819	1,147	328	12%	878	1,169	291	10%
Machinery and Transport	1,088	2,677	1,589	58%	1,072	2,752	1,680	57%
Miscellaneous Manufactures	1,576	1,068	-508	-19%	1,627	1,170	-457	-15%
Other commodities	8	11	3	0.1%	5	13	8	0.3%
Total Imports	5,880	8,605	2,725	100%	5,954	8,911	2,957	100%

Source HMRC (2016)

4 Summary

HRMC's revision to its regional trade statistics methodology has had little impact on the first conclusion of NIAR 32-16, namely that the EU is Northern Ireland's largest export market. Although the value of exports changed slightly, the overall conclusion remains true for the years examined irrespective of whether data produced under the new or old methodology is used.

On the other hand, the second major conclusion of NIAR 32-16 – that Northern Ireland sells more to the EU than it purchases from it – is substantially altered by HMRC's methodological revision for the years 2013 and 2014. To summarise, data produced under the previous methodology resulted in a trade surplus for these two years. The new methodology has transformed this into a much larger trade deficit, fundamentally reversing the previously perceived trade position and the papers analysis of Northern Ireland's trading relationship with the EU. A deeper look at the data suggests that this is the result of increased imports of machinery and transport goods being reassigned to Northern Ireland under the new methodology for the years in question.