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SPANISH COMPANIES EXPORTING GOODS
TO THE UNITED KINGDOM: STYLISED FEATURES
AND RECENT DEVELOPMENTS BY REGION

Eduardo Gutiérrez Chacón and César Martín Machuca

ABSTRACT

This article analyses, by region, the trade exposure of Spanish firms to the United Kingdom, based on individual information from the Balance of Payments and the Central Balance Sheet Data Office. Exposure to the UK economy shows some regional variability. Since 2016 there has been a fairly widespread downward trend of this exposure in terms both of nominal exports of goods to the United Kingdom and of the number of companies engaging in this activity. The vulnerability of Spanish export companies to Brexit is, in part, moderated in broad terms by their productivity levels and by the degree of geographical diversification of their exports, which are higher than at firms which trade with the main euro area partners.

Keywords: Brexit, export companies, regions.

JEL classification: F1, F13, F14, F19, F23.

SPANISH COMPANIES EXPORTING GOODS TO THE UNITED KINGDOM: STYLISTED FEATURES AND RECENT DEVELOPMENTS BY REGION

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Introduction

On 31 January 2020 the United Kingdom effectively left the European Union (EU) after three extensions to the initial deadline. The process, which commenced with a referendum held in June 2016, calls upon far-reaching changes to relations between EU countries and the UK economy in several areas, including trade. The final outcome of the process and its subsequent economic impact are still subject to a high degree of uncertainty. The United Kingdom and the EU must negotiate a new trading relationship during a transition period which expires on 31 December 2020.

In aggregate terms, Spain's trade exposure to the United Kingdom is significant, as this country is Spain's fifth largest trading partner, accounting for nearly 7% of total Spanish sales abroad. This exposure is, to some extent, qualified by the features of firms exporting to the UK economy, characterised by their relatively high productivity levels and by the geographical diversification of their activity abroad (see Gutiérrez Chacón and Martín Machuca, 2018). In principle, this should, in part, help soften the negative aspects associated with Brexit, in terms of the possible increase in tariff and non-tariff trade barriers.

This article analyses in depth the microeconomic perspective of the trade exposure of Spanish firms exporting goods to the United Kingdom through a disaggregated analysis by region. The aim is to make a preliminary diagnosis to assess whether the impact of Brexit might differ significantly between Spain's regions, depending on their relative exposure to the UK economy, their sectoral specialisation or the idiosyncratic characteristics of the firms in each region exporting to the UK economy. As in the case of Gutiérrez Chacón and Martín Machuca (2018), it uses the data on cross-border transactions by region up to 2018 published by the Spanish Institute of Foreign Trade (ICEX, by its Spanish abbreviation), Customs information and the microeconomic information from the Banco de España's records of cross-border transactions (which are only available up to 2013), and from the Central Balance Sheet Data Office.¹

¹ The ICEX data are used in Section 2 of this article. The analysis of the characteristics of firms which export to the United Kingdom is described in Section 3. The information used is obtained from the combination of the records of cross-border transactions of the Balance of Payments (available up to 2013 and which allow identifying export companies) with the Central Balance Sheet Data Office and the Annual Accounts filed with the Mercantile Registries, on the basis of which the characteristics of such firms are obtained. The analysis of the characteristics of export companies focuses on 2012 because this is the last year for which the information provides the broadest coverage possible.

The rest of the article is structured as follows. The second section describes changes since end-2015 to end-2018 in exports and in the number of firms exporting to the United Kingdom, using data by region compiled by the ICEX. The third section analyses the characteristics of the firms behind these developments using the information from the Banco de España's records on cross-border transactions.

Recent changes, by region, in exports and in the base of exporters of goods to the United Kingdom

Direct trade exposure to the United Kingdom shows notable differences between regions. In absolute terms, the regions which account for a larger proportion of total Spanish exports of goods to the UK economy are Catalonia (21% of the total), followed by Valencia, Madrid and Andalusia (see Chart 1.1). However, the exposure in terms of GDP of these four regions is not as high as that of other regions (see Chart 1.3). Indeed, Murcia is the region that is most exposed to the United Kingdom relative to the size of its economy. Its exports to the UK market exceed 3% of the regional GDP, as compared with 1.5% for Spain as a whole.² It is also the region whose exports to the United Kingdom represent the highest proportion of its total sales abroad (9.3%), as shown in Chart 1.5. At the opposite extreme are the Balearic Islands and the Canary Islands (between 3% and 2%, respectively). Trade exposure to the UK market is also relatively small in Extremadura, Navarre and Castile-La Mancha. In the rest of regions it hovers around the average for Spain (7%).

In regions where trade exposure to the United Kingdom is high, the specialisation of their sales to that country is more biased than the national average towards food, beverages and tobacco (Murcia and Navarre, in particular) or towards the automotive industry (Aragon, Basque Country, Valencia and Castile and Leon). These products, together with chemical products, accumulate around 60% of total Spanish exports to the UK market (see Chart 1.7).

Since 2016, the year of the Brexit referendum, there has been a decline in the relative weight of the United Kingdom in Spanish exports of goods (0.8 pp), as a result of the diminished strength of sales to that country in comparison with other destinations (see Chart 1.6). As shown in Charts 1.4 and 1.6, the drop in the relative weight of exports to the United Kingdom was broad-based across regions. In any event, it was more pronounced in those with a higher relative importance of the automotive sector, which has experienced a comparatively larger decline in UK demand. This is the case with Aragon, Valencia, Navarre and Cantabria (see Charts 1.7 and 1.8).^{3, 4} The

2 Between 2016 and 2018 the weight of GDP in goods exports to the United Kingdom decreased in most Spanish regions, except for Andalusia, Galicia and the Basque Country.

3 In early 2016 the regions with a greater relative significance of the automotive sector in their exports to the United Kingdom were Castile and Leon, Aragon, Valencia and Navarre.

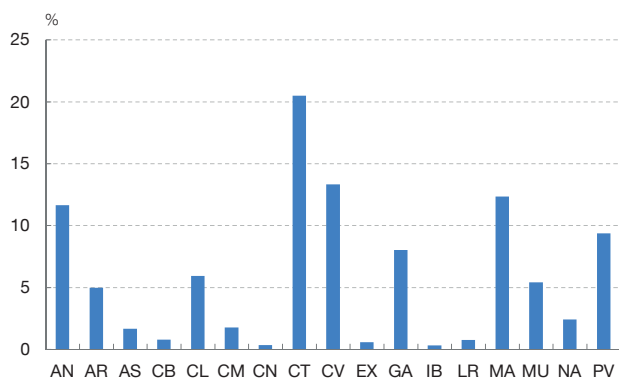
4 However, in Asturias, Galicia, Andalusia and the Basque Country, the performance of exports to the United Kingdom was more dynamic, with their relative weights rising. This was largely as a result of greater sales to the UK market in the aeronautical and shipbuilding sector and the increase in car exports.

Chart 1

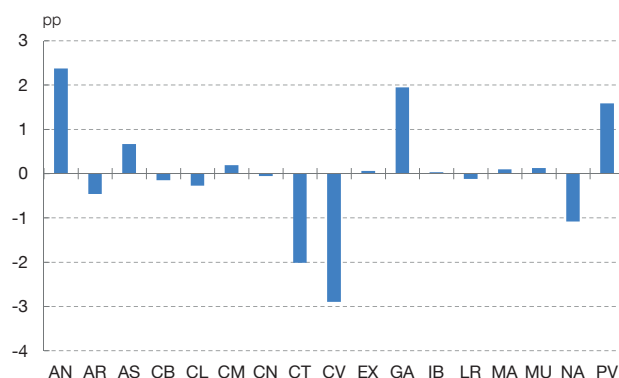
SPANISH EXPORTS TO THE UNITED KINGDOM, BY REGION (a)

7% of Spanish sales abroad are to the United Kingdom, the country with the highest weight in Murcia and Valencia's total sales. In the case of Murcia, exports to the United Kingdom account for 3% of GDP.

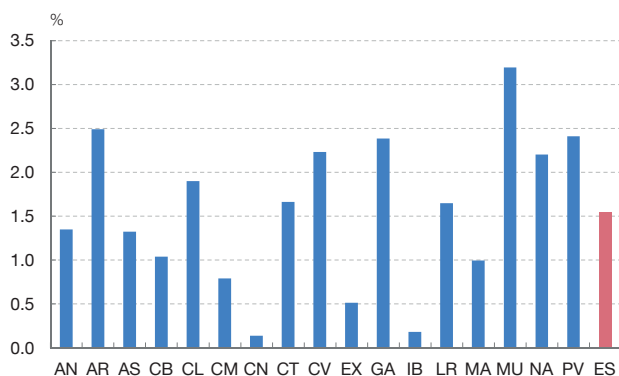
1 WEIGHT IN 2018



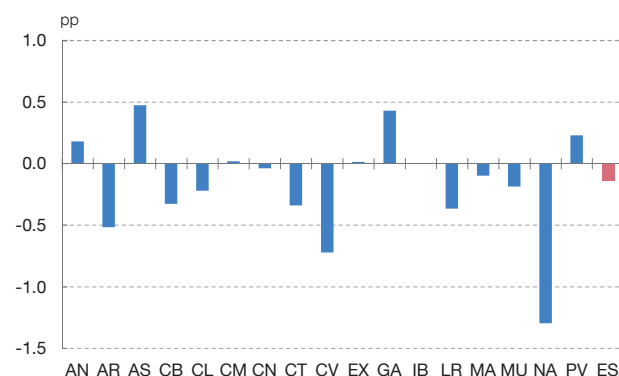
2 CHANGE IN RELATIVE WEIGHT BETWEEN 2016 AND 2018



3 WEIGHT AS A PERCENTAGE OF GDP IN 2018



4 CHANGE IN WEIGHT IN GDP BETWEEN 2016 AND 2018



SOURCES: Banco de España and ICEX.

a Abbreviations: AN: Andalusia; AR: Aragon; AS: Asturias; CB: Cantabria; CL: Castile and Leon; CM: Castile-La Mancha; CN: Canarias; CT: Catalonia; CV: Valencia; EX: Extremadura; GA: Galicia; IB: Balearic Islands; LR: La Rioja; MA: Madrid; MU: Murcia; NA: Navarre; PV: Basque Country; ES: Spain.



decline in sales to the United Kingdom was also appreciable in La Rioja and the Canary Islands, owing to the fall in exports of wine, in the first case, and vegetables, in the second. It should be noted that, despite the relatively unfavourable performance of some agrifood products, Spain's aggregate exports of food, beverages and tobacco to the United Kingdom increased moderately between 2016 and 2018.

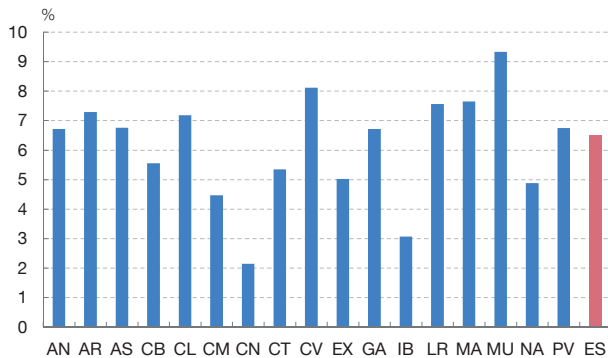
In the hypothetical case that the final relationship between the EU and the United Kingdom entails the adoption of tariffs, the potential vulnerability of each region would depend not only on the relative weight, but also on the product structure, of its exports to this country, since different types of goods bear different tariff rates. Specifically, in the case of Spain, agrifood, textile and, to a lesser extent, motor

Chart 1

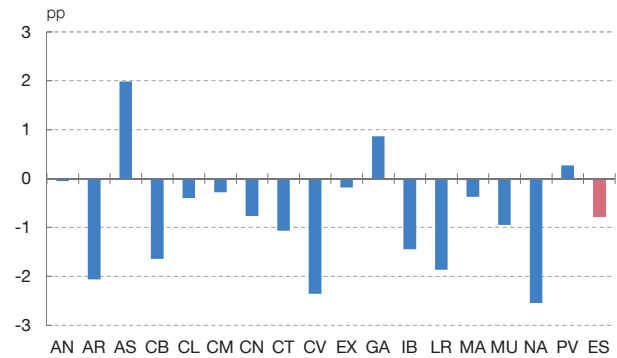
SPANISH EXPORTS TO THE UNITED KINGDOM, BY REGION (a) (cont'd)

7% of Spanish sales abroad are to the United Kingdom, the country with the highest weight in Murcia and Valencia's total sales. In the case of Murcia, exports to the United Kingdom account for 3% of GDP.

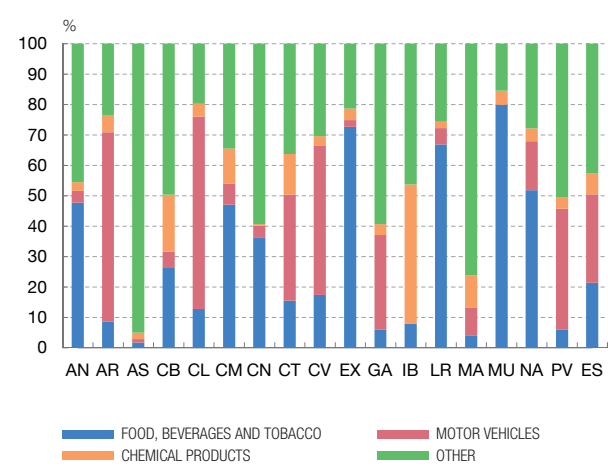
5 PERCENTAGE OF TOTAL IN 2018



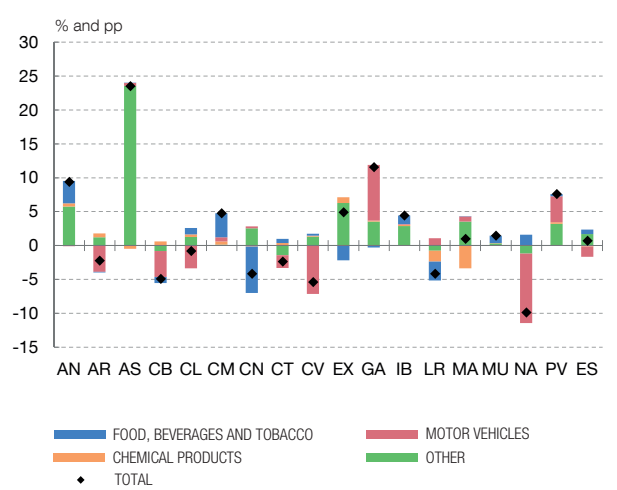
6 CHANGE IN RELATIVE WEIGHT BETWEEN 2016 AND 2018



7 EXPORTS BY SECTOR



8 ANNUAL AVERAGE CUMULATIVE GROWTH BETWEEN 2016 AND 2018 AND CONTRIBUTION BY EXPORT SECTOR



SOURCES: Banco de España and ICEX.

a Abbreviations: AN: Andalusia; AR: Aragon; AS: Asturias; CB: Cantabria; CL: Castile and Leon; CM: Castile-La Mancha; CN: Canarias; CT: Catalonia; CV: Valencia; EX: Extremadura; GA: Galicia; IB: Balearic Islands; LR: La Rioja; MA: Madrid; MU: Murcia; NA: Navarre; PV: Basque Country; ES: Spain.



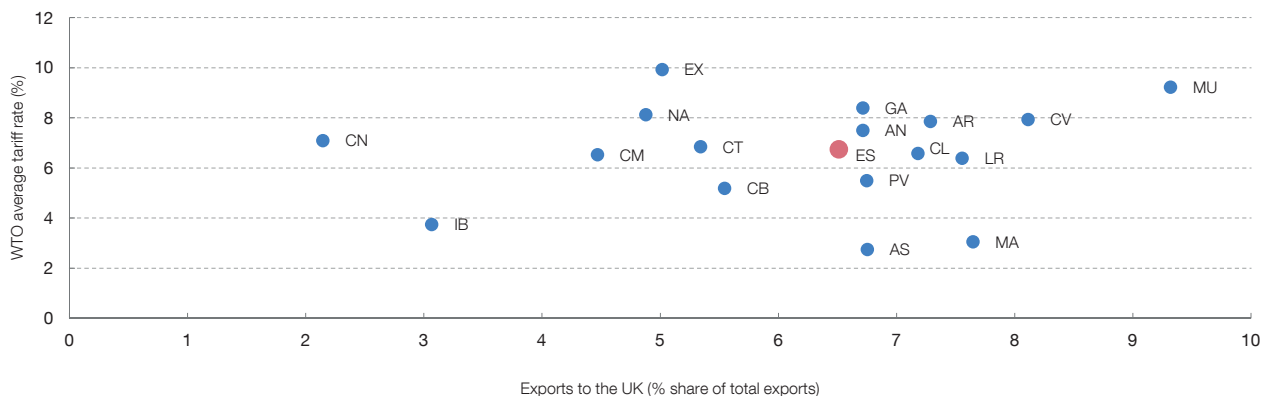
vehicles, are some of the products to which higher tariffs are applied on average (see Gutiérrez Chacón and Martín Machuca, 2019). Therefore, each Spanish region would be subject to a higher tariff on average but different based on the product structure of its exports to the UK market.⁵

5 The dispersion of average tariffs applied by WTO member countries is appreciable by product, ranging from 39% in the case of animal and vegetable oils and fats, to 0.7% in that of nonedible raw materials. Tariffs of around 11% are applied to some of the main products exported to the United Kingdom, such as food and live animals, and clothing and footwear. Motor vehicles are subject to tariffs near 10%.

Chart 2

REGIONAL EXPOSURE TO A HYPOTHETICAL IMPOSITION OF TARIFFS ON SPANISH EXPORTS OF GOODS TO THE UNITED KINGDOM. TARIFFS WOULD REACH THE EU AVERAGE RATE AGAINST THE WTO RATE

Regional exposure to tariffs depends on the relative weight of sales of goods to the United Kingdom and on their composition by product. Taking into account these two factors, the regions that are most exposed include most notably Murcia and Valencia.



SOURCES: Banco de España and ICEX.



By way of example, Chart 2 envisages an adverse scenario where tariffs imposed by the United Kingdom to exports from the EU for each type of product are equivalent to the average of those applied to EU products by WTO member countries as a whole. The average tariff for Spanish exports as a whole to the United Kingdom would be slightly below 7%. A group of regions would potentially be more exposed than the national average, namely Murcia, Valencia, Galicia and Aragon. This is due to both the relative weight of their bilateral trade with the UK market and their export specialisation, with a significant weight of agrifood, textile and motor vehicle products, which, as mentioned earlier, are subject to relatively high tariffs on average. Extremadura would also bear substantially higher tariff rates than the national average, but their total impact is mitigated because the relative weight of this region's bilateral exports to and from the United Kingdom is lower than that of Spain as a whole.

As regards the number of export companies, 11% of the total that sell abroad have a trading relationship with the United Kingdom (see Chart 3.1).⁶ By region, the impact of this market on La Rioja, Cantabria and Murcia, where 13% of export companies have trade relations with the United Kingdom, is noteworthy. Madrid and, in particular, the Balearic Islands, are in the opposite extreme. However, as occurs with value exported, the bulk of firms which sell to the United Kingdom tends to concentrate in the regions with a larger economic size (see Chart 3.3). Thus, Catalonia stands out

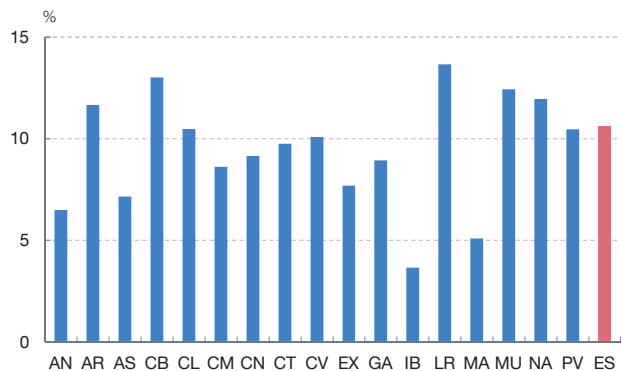
⁶ Exporters of less than €1,000 are excluded, since a substantial increase has been observed since end-2017 in operators making low-value dispatches to South American countries, owing to the crisis in Venezuela.

Chart 3

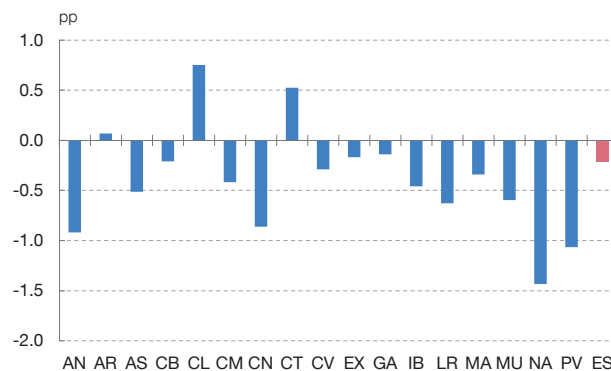
FIRMS WHICH EXPORT TO THE UNITED KINGDOM, BY REGION

11% of exporters are exposed to the United Kingdom, although in the case of La Rioja, Cantabria and Murcia around 13% are. The weight of exporters has declined in all the regions, except Castile and Leon, Catalonia and Aragon. This fall has concentrated in new exporters.

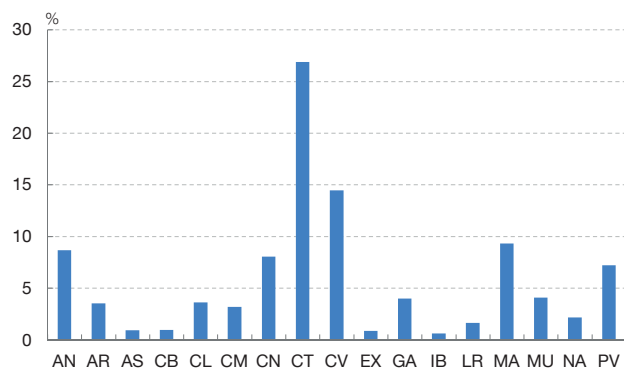
1 PERCENTAGE OF TOTAL IN 2018 (a)



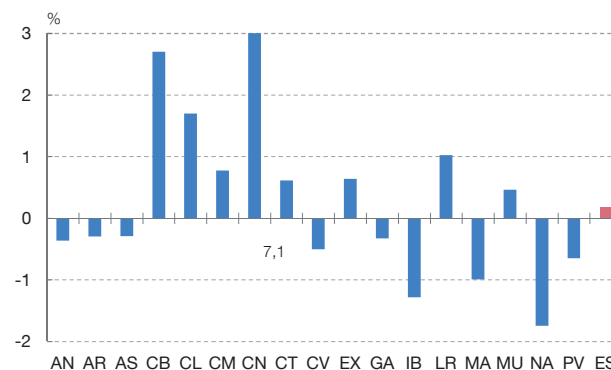
2 CHANGE IN RELATIVE WEIGHT BETWEEN 2016 AND 2018 (a)



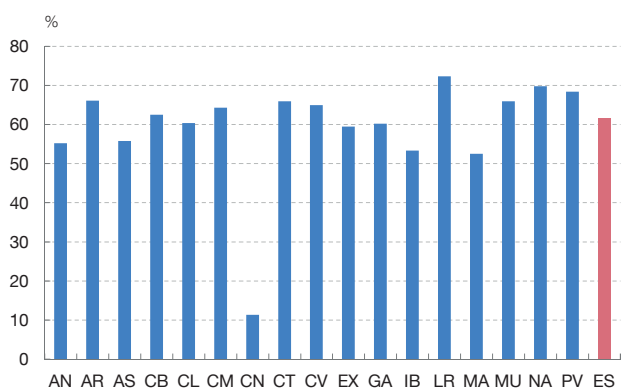
3 WEIGHT IN 2018



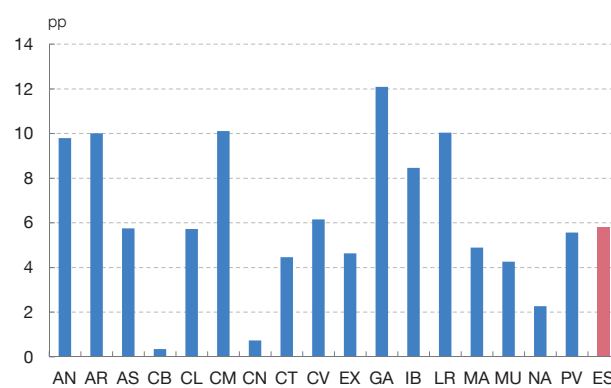
4 ANNUAL AVERAGE CUMULATIVE GROWTH OF EXPORTERS BETWEEN 2016 AND 2018



5 PERCENTAGE SHARE OF REGULAR EXPORT COMPANIES IN THE TOTAL IN 2018



6 CHANGE IN THE RELATIVE WEIGHT OF REGULAR EXPORT COMPANIES IN THE TOTAL BETWEEN 2016 AND 2018



SOURCES: Banco de España and ICEX.

a Exporters of less than €1,000 are excluded, since a substantial increase has been observed since end-2017 in operators making low-value dispatches to South American countries, owing to the crisis in Venezuela.



(27% of the total), followed by Valencia (14%) and then Madrid and Valencia. In most regions there was a decline between 2016 and 2018 in the relative weight of all the firms with a presence in the UK market (of 0.2 pp for Spain as whole, as shown in Chart 3.2). The same is true for the number of exporters to the major euro area countries, which is a direct consequence of the increase in geographical diversification towards regions outside Europe of sales of Spanish products to the rest of the world. This fall was seen in most regions. The only regions where the percentage of firms selling to the United Kingdom rose were Castile and Leon, Catalonia and Aragon.

The decrease in the relative weight of firms which export to the United Kingdom is mainly due to the reduction of those without a firm activity in this market, since the relative weight of regular exporters to the United Kingdom (defined as those who have exported to this destination for at least four consecutive years) has increased substantially since 2016 (by 6 pp, to 60% of the total). This increase has been broad-based across regions (see Charts 3.5 and 3.6). In line with this evidence, regular exports accumulate the bulk of total exports (90%), a feature which is common to virtually all the regions.

Characteristics of companies which export goods to the United Kingdom, by region

The vulnerability of each region's productive system to the outcome of negotiations between the EU and the United Kingdom depends not only on the degree of their trade exposure to the United Kingdom, but also on certain intrinsic characteristics of the firms themselves. In particular, more productive firms tend to have advantages in terms of costs or product quality that may help them better deal with a negative shock such as the possible emergence of trade restrictions. Also, geographically diversified firms may smooth out more easily changes in a specific geographical market with what happens in the rest.

The information from the Banco de España's records of cross-border transactions allows comparing the characteristics of Spanish companies that export to the UK market with those that do so to relatively similar EU countries in terms of size, such as Germany, France and Italy. From this viewpoint, the most significant characteristic for Spain as a whole is that exporters to the United Kingdom are more labour productive and their sales are more geographically diversified than firms that are exposed to the three main euro area economies (see Gutiérrez Chacón and Martín Machuca, 2018).

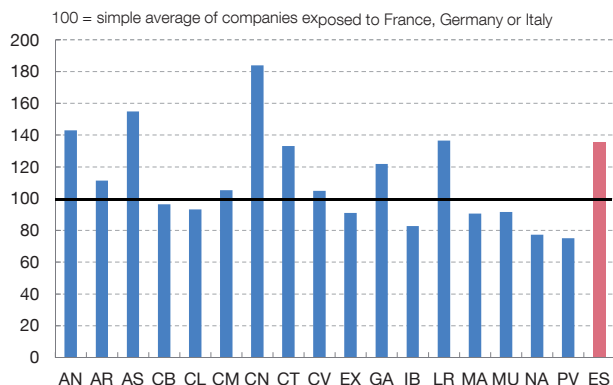
Specifically, the differential in terms of the level of labour productivity is positive for exporters to the United Kingdom (35 pp), although some regional heterogeneity is observed (see Chart 4.1). The gap is positive and particularly significant in the Canary Islands, Asturias and Andalusia (between 80 pp and 40 pp) but turns markedly negative in the Basque Country and Navarre (25 pp less). Rather less sharply, the

Chart 4

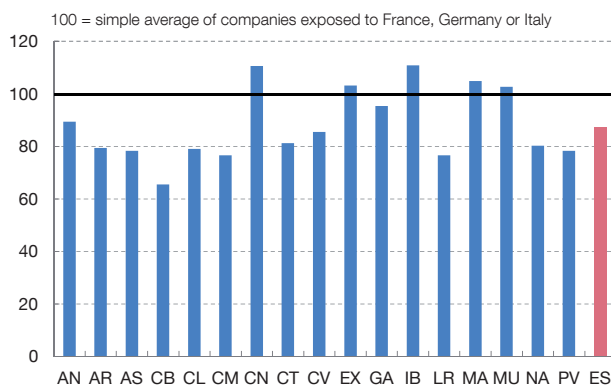
CHARACTERISTICS OF FIRMS THAT TRADE TRADE GOODS WITH THE UNITED KINGDOM. INFORMATION OBTAINED BY DATA MATCHING BETWEEN THE BALANCE OF PAYMENTS, THE CENTRAL BALANCE SHEET DATA OFFICE AND MERCANTILE REGISTRIES (2012)

Exporters to the United Kingdom are more labour productive and their sales are more geographically diversified than firms that are exposed to the main euro area economies.

1 LABOUR PRODUCTIVITY



2 AVERAGE SHARE OF EACH MARKET (a)



SOURCE: Banco de España.

a The average share of each market reflects the percentage of exports of each firm to a specific market. Our indicator measures the average share of the United Kingdom in exports by Spanish firms in comparison with France, Germany or Italy.



relative labour productivity of exporters to the United Kingdom is also lower than that of firms in Murcia, Castile and Leon, Extremadura and Madrid which trade with France, Germany or Italy.

The vulnerability of firms to Brexit is conditioned by the geographical diversification of their export activity which in this article is approximated on the basis of the relative weight of the United Kingdom in the exports of each firm (compared with the weight of exports to the main euro area economies). Broadly speaking, firms which export to the UK economy are more geographically diversified in comparative terms,⁷ which limits their potential vulnerability to Brexit. Indeed, the average share of sales of goods to the United Kingdom in each firm’s exports is approximately 13 pp lower than the average weight of sales to France, Germany and Italy (see Chart 4.2). These characteristics extend to most of the regions, except Madrid, Balearic Islands, Extremadura, Murcia and the Canary Islands, where the share of the UK market in exports is comparatively high.

In short, trade exposure by region to the United Kingdom tends to be relatively significant in most Spanish regions. Since 2016 there has been a broad-based fall in

7 In other words, the relative weight of this country in total exports is lower than that of exports to any of Spain’s three main trade partners in the euro area.

the relative weight of the United Kingdom both in exports of goods, hampered by sales related to the automotive sector and certain food items, and in the number of export companies. This decline has centred on non-regular exporters. These developments have taken place against a backdrop of uncertainty linked to Brexit and of sterling weakness, which may also have discouraged the entry of new exporters in this market. There is significant variability as regards the exposure of the different regions to a hypothetical imposition of tariffs by the United Kingdom, with the most affected being those whose exports to that country are more biased towards agrifood, motor vehicle or textile products. In any event, the vulnerability to Brexit of Spanish companies which export to the United Kingdom is partially cushioned by their relatively high productivity levels and by the degree of geographical diversification of their exports, which are generally higher than at companies which trade with the main euro area partners.

In any event, the impact of Brexit on Spanish export companies will ultimately depend on the final content of the trade agreement reached between the EU and the United Kingdom, in particular in relation to the tariff and non-tariff barriers eventually established. These trade barriers may be very diverse by product. In turn, for a given barrier level, demand for different types of goods exported from Spain may have highly varying degrees of sensitivity, and price elasticity of demand may, in particular, differ. Finally, although the COVID-19 outbreak has not, for the moment, altered the negotiation schedule for the new bilateral agreement between the EU and the United Kingdom, it has obviously complicated the finalisation of negotiations as scheduled.

24.8.2020.

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