

# CUSTOMS UNION: THE FACTS

## Tough choices lie ahead, so - to protect jobs - policy makers should be guided by evidence, not ideology.

The Government has set itself three objectives to achieve with a new customs relationship with the EU, outside of the EU customs union:

- Ensuring UK-EU trade is as frictionless as possible
- Avoiding a 'hard border' between Ireland and Northern Ireland or between Northern Ireland and Britain
- Establishing an independent international trade policy

## Frictionless trade with the EU is businesses' number 1 priority

1. **The EU is overwhelmingly the UK's most important trading partner:** it provides the UK's largest export market for goods, accounting for 48% of total exports (£145 billion), or 7.4% of GDP,<sup>1</sup> in 2016, and 55% (£241 billion) of the UK's imports the same year.<sup>2</sup>
2. **The EU is currently business' preferred market for trade:** 78% of UK exporting companies sell into the EU<sup>3</sup>, leveraging its 446 million consumers. The vast majority of these companies (96%) are SMEs.<sup>4</sup>
3. **This preference for easy EU trade is likely to continue for two reasons:**
  - **UK infrastructure has been built to support easy EU trade.** The Port of Dover deals with the equivalent of 17% of UK trade, with 2.6million freight trucks passing through the port in 2016.<sup>5</sup> That year, more than one million small parcels per day moved through the Eurotunnel, which also transported £100billion in trade between the UK and the EU.
  - **It is impossible to escape gravity.** Analysis of 100+ previous studies show that proximity has only become even more important to trade in goods. Halving the distance to a market roughly doubles the volume of exports.<sup>6</sup>

## Hardening of the Irish border is not an option for business

1. **Companies on both sides and supply chains are deeply integrated into an all-island market.** 177,000 HGVs and 208,000 light commercial vehicles cross the border between Northern Ireland and the Republic of Ireland (ROI) each month, using some 200 roads<sup>7</sup>. Over 37% of Northern Ireland's total exports go to the Republic of Ireland (ROI), equivalent to £3.4bn per annum.<sup>8</sup>
2. **Creating barriers within the all-island market would be deeply damaging.** According to one estimate, complying with the requirements of leaving the customs union would add over €458 to the cost of shipping every consignment of goods across the border.<sup>9</sup> For an SME sending just 2,200 batches of goods across the border in a year (6 or 7 each day), this raises an additional cost of over €1 million.
3. **A border in the Irish sea still results in infrastructure.** The UK is the biggest market for businesses in Northern Ireland – sales to rUK were worth 1.5 times the value of all Northern Ireland exports.

<sup>1</sup> Office for National Statistics, *Who does the UK trade with? 2018*

<sup>2</sup> UK Balance of Payments, *The Pink Book 2016*

<sup>3</sup> Department for Business Innovation & Skills, *UK SMEs in the Supply Chains of Exporters to the EU 2016*

<sup>4</sup> HM Revenue and Customs, *UK Trade in Goods by Business Characteristics 2015*

<sup>5</sup> Dover Harbour Board, *Annual Report & Accounts: Port of Dover 2016*

<sup>6</sup> *Financial Times*, *The Post-Brexit Trade Deals that Britain Needs to Prioritise*

<sup>7</sup> DG Internal Policies of the Union, *Smart Border 2.0*

<sup>8</sup> NISRA, *Broad Economy Sales and Export Statistics*

<sup>9</sup> DG Internal Policies of the Union, *Smart Border 2.0*

## Trade is about far more than trade deals

- 1. The value of potential trade deals with third countries is unproven.** The National Institute of Economic and Social Research estimated that the increases to UK trade from concluding FTAs with the USA, Canada, Australia and New Zealand combined are less than 3% of current total trade in goods and services. Meanwhile, the estimated trade increase from concluding FTAs with the BRIC (Brazil, Russia, India, Indonesia, China and South Africa) countries combined is even smaller, at just over 2%. In contrast, evidence shows that leaving the single market would lead to a long-term reduction in total UK trade of between 22% and 30%.<sup>10</sup>
- 2. The UK Government has an abundance of potential to boost trade with the rest of the world, without striking independent trade deals.** For example, Germany sells 4.7 times more to China than the UK does<sup>11</sup>, without a trade deal. Being in a customs union doesn't prevent growing trade with key markets such as the US and China.
- 3. Securing access to existing third-party FTAs - covering 61% of the UK's trade with the rest of the world - through negotiation is more important than delivering new FTAs.**

### To boost international trade, the Government should:

- Use our embassies to champion British business and ease market access
- Deliver an effective Industrial Strategy
- Get more firms exporting by embedding best-practice across UK regions
- Mirror other countries' exporting success via trade missions and export credit finance
- Work with business on a new "global Britain" agenda

## The proposals put forward by the Government so far will not deliver frictionless trade and/or will harden the Irish border

"Highly streamlined customs arrangement"	"A new customs partnership"
<ul style="list-style-type: none"> <li>• Best of the alternative options but will require new customs declarations – creating friction at the border.</li> <li>• Requires the successful negotiation of an unprecedented level of simplifications to be successful.</li> <li>• <b>This option requires significant changes to existing UK port, rail and air infrastructure, with associated time and monetary costs.</b></li> <li>• Hard to see how this operates without some level of infrastructure at the Irish border.</li> </ul>	<ul style="list-style-type: none"> <li>• This option is ambitious and would negate the need for hardening of the Irish border.</li> <li>• However, this relies on an unproven and untested tracking system or a repayment mechanism which will be technically challenging and costly to facilitate. <b>For small trading firms it will be impossible to manage.</b></li> <li>• The EU has already made clear it is unwilling to negotiate a partnership of this sort.</li> </ul>

## Alongside a deep relationship with the single market, a customs union must be on the negotiating table

**A customs union is part of the answer to the tough questions facing the Government.** A hard-headed look at the economic evidence and the models in existence shows that some form of a customs union is necessary to ensure frictionless-trade and no hardening of the Irish border.

**A customs union may require some sort of compromise on international trade, but not necessarily.** With political will and flexibility on both sides, a mechanism could be established to allow the UK to join the EU on trade negotiations, or negotiate its own deals on services. Even if this is not possible, the evidence in favour of a totally independent international trade policy does not add up: the benefits of new trade deals do not outweigh the costs of distance from the EU, and the Government can do plenty to boost international trade from within a customs union.

<sup>10</sup> National Institute of Economic and Social Research, *Will New Trade Deals Soften the Blow of Hard Brexit?*

<sup>11</sup> CBI; Haver; ONS; Deutsche Bundesbank.