

# Should the UK seek Customs Union with the EU?

Blog post by Partner Stephen Adams, 7 September 2016

---

It was interesting to watch the new UK Secretary of State for Exiting the EU David Davis face-off for the first time with the British Parliament this week. As expected, he was pushed on the detail of his vision for the future relationship between the EU and the UK and he ultimately got in trouble with his boss in Number 10 for sounding a bit too sure on the question of whether the UK would leave the EU single market.

He did, however, seem to hedge his language on the possibility of customs union with the EU, which is a question that exemplifies some of the big potential trade-offs ahead for the UK. In working through the implications of a possible UK request to join the EU customs union with GC clients over the last few weeks, it has been striking how finely balanced many of the issues it raises are for individual companies, and the way in which they will pit concrete questions of trade facilitation for existing traders between the UK and the EU against potential policy autonomy for the UK in the future.

Assuming such an arrangement is agreeable to the remaining EU states, joining the EU Customs Union (EUCU) would put the UK alongside Turkey, and a collection of EU microstates like Andorra, inside a single external tariff for most industrial goods with the EU single market. This removes the prospect of tariffs on EU-UK trade. It reduces the paperwork attached to exports and imports to a minimum (albeit not to the complete extent of participation in the EU single market). Even if we assume that tariff-free trade in industrial goods is likely through an EU-UK FTA, at least eventually, the trade facilitation benefits of customs union make it attractive to large and small businesses faced with the additional costs of export and import processing between the EU and the UK.

The potential downsides are equally important and fall into two categories. The first concerns the requirement to harmonise UK technical standards for goods covered by the EUCU with those of the EU. This would mean locking UK standards to EU norms for as long as the UK wanted to remain in the EUCU. This is what the UK does now, although it has a material say in the making of those standards. However, given that one of the long term costs in goods trade between the EU and the UK is the possible divergence in EU and UK technical standards, this is not necessarily a bad thing, even with reduced influence. UK exporters to the EU will have to meet these standards anyway, and a single EU-UK technical standard covering 600 million consumers is a useful way of exerting pressure on other countries to mirror the 'European' standard in their own to ease imports - which is also good for UK exporters.

Perhaps more clear cut in terms of trade-offs is trade policy. Joining the EUCU means mirroring the EU's external tariff, both in its standard form and at any preferential level negotiated by the EU. If the EU agrees an FTA with another country, the UK would have to implement the cuts agreed, with

limited say over them, although it could arguably have a limited consultative role through some form of Customs Union 'Council'. The UK would also not benefit from any tariff concessions offered to the EU in return, but would have to negotiate these in its own flanking FTA with the EU trade partner. While it would be able to use market access concessions in services and goods not covered by the EUCU to secure these agreements - and even concessions not offered to the EU in the same areas - it would not have the leverage of EUCU tariff cuts to play into any deal.

How much does this really matter? The few remaining tariffs that the UK would inherit if it grandfathered the EU's current external industrial goods tariffs (and its own current tariffs) as its post-Brexit profile are certainly part of its leverage in potential future UK trade deals. For example, if the UK could not cut its external tariff on cars as it chose it would lose a potential incentive for Tokyo to strike a bilateral FTA with London, although it would have other leverage for such an agreement in access to its services markets and in areas not covered by EUCU. This includes the vital area of financial services. Moreover, a high degree of integration with the EU single market for goods trade would in itself add to the attraction of dealing with the UK, not least in deals designed to encourage FDI, especially for businesses that ultimately trade on into the EU.

The trade-off of costs today and costs tomorrow can make EUCU look different from the perspective of a business and a policymaker. Customs union is essentially a form of selective participation in the EU single market - in this case for industrial goods. Like most existing forms of being 'semi-in' the EU single market, it is a trade-off of ease of trade for an acceptance of EU standards.

For UK (and EU) businesses, it raises the tricky question of how you weight concrete costs to your own trade today against hypothetical gains in the future from UK trade deals. And how you weight the costs of being bound into a single set of EU standards that facilitate trade today against limited UK control over the content of those standards in the future. The horizons of businesses and politicians and policymakers are unlikely to be identical on these questions. Neither are their views of the implications for sovereignty and 'the national interest'. It is not clear how this trade-off should be made. Welcome to Brexit.