

'Categorically clear': What being outside a customs union with the EU will mean for post-Brexit UK



*Being outside a customs union with the EU will mean that costs of many goods will be higher, risks associated with trade will be greater, and borders (including with Ireland) will have to be harder. **Katy Hayward** (Queen's University Belfast) cautions about the consequences for British businesses and consumers of this new statement of intention from the British government.*

The [statement](#) issued (4 February 2018) from 10 Downing Street sought to make it 'categorically clear' that the UK will not be in 'the', 'a' or 'any' customs union with the EU after withdrawal. The purpose of this statement was primarily to stifle in-fighting in the Cabinet and to 'put to rest' any notion of compromise on this matter. It was *not* intended to offer a workable form of clarity for UK businesses or their trade partners, nor to put forward any more realistic a proposal to the Article 50 Taskforce in Brussels.

What *is* unambiguous is the ambition of project 'Global Britain'. The rationale for being outside any customs union with the EU is tantalisingly straightforward: greater freedom for the UK to compose its own free trade deals with third countries and escape from the 'protectionism' of the Common External Tariff. What is less certain is the means by which the consequences of this move will be managed. It appears that the Prime Minister is inclined to return to the first draft 'blue skies thinking' conjured up last August, and suggest a 'customs partnership' or 'highly streamlined customs arrangement' in place of a customs union.

Yet even according the [UK's own position paper](#), this entails 'an innovative and untested approach that would take time to develop and implement'. And there is little sign as yet of any details of such arrangements, nor any provision being made as to their implementation. This is with fewer than six months left for the negotiation of the Withdrawal Agreement and transitional arrangements.

This is a daring 'survival of the fittest' experiment at a most incredible scale. British businesses are to be flung into the 'global' unknown – so liberated as to be free from even the equipment, training or mere instruction manual necessary to stay afloat. The same may be said of HMRC and UK Border Force. Indeed, the clearest guidelines issued so far about how to navigate trade outside the customs union have come from the European Commission's Directorate-General on Taxation and Customs Union, which [has set out](#) what conditions will apply for the movement of goods to/from the UK from 30 March 2019 [subject to any transitional arrangement].



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The baseline outcome is that under the World Trade Organization rules, the EU will trade with the UK as a third country, with no special status or unique partnership. As a consequence, goods which are brought into the customs territory of the EU from the UK, or vice versa, will be subject to customs supervision and may be subject to customs controls. In practice, this will mean that customs formalities apply and declarations have to be lodged. All of this adds time and costs.

But what about those means that currently exist to help ameliorate such cost? Unfortunately, companies presently enjoying Authorised Economic Operator status for the EU's Customs Union will see that standing dissolved by Withdrawal. Similarly, those UK goods currently benefiting from EU Commercial Policy and preferential tariff in EU external trade will enjoy no such privileges after Withdrawal. Well, never mind, Jacob Rees-Mogg might retort, we are 'against' protectionism anyway.

And protectionism has undoubtedly affected the UK's agricultural and agri-food sectors within the EU's customs union. We've seen the Common External Tariff imposed on incoming foods and – unashamedly to protect the health and life of humans, animals and plants within the EU – there have been very tight restrictions on agricultural produce entering the UK territory.

Outside the EU, however, the UK agricultural sector will be on the other side of those protections and face considerable barriers to trading in the EU, at the same time as being exposed to imports of low-cost, perhaps low-regulation foodstuffs. Still, Michael Gove will remind us: the cost of some foods will go down – at least for the non-picky consumer who isn't that fussed about European produce.

It's not just food that will be affected. The movement of excise goods (i.e. those with duties imposed, such as alcohol and tobacco) will have to undergo customs formalities, adding costs and delays and complications for traders. Withdrawal will also mean that UK goods and persons will be outside the VAT territory of the EU and the recently-improved electronic means of claiming VAT refunds from elsewhere in the EU. This means – you guessed it – another set of paperwork to be completed for UK-EU traded goods and sales.

Of course, UK-EU trade is already far from frictionless in relation to particular goods. Import/export licences are already required in a wide range of policy areas and for a wide variety of goods, such as waste, hazardous chemicals, firearms and drug precursors. But as of the withdrawal date, import/export licences issued by the UK as an EU Member State will no longer be valid. Moreover, border checks will be required to ensure that the UK's borders are not a gaping hole for the illegal entry of such goods.

The EU has made the implications of being outside a customs union starkly clear and, according to WTO rules, the UK will be obliged to efficiently manage such customs supervision. Technological solutions are a means, not an end. Costs will be higher; risks will be greater; borders will be harder.

We should be aware of this as we consider the consequences of this new statement of intention from the British government. Is negotiating 'any' customs union with the EU really more devilish than throwing British businesses and consumers into the deep blue sea?

This post represents the views of the author and not those of the Brexit blog, nor the LSE.

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