

# The Case for Continued Customs Union Membership



*A report by:*



The All-Party Parliamentary Group on  
**EU Relations**

# Foreword

*By Chuka Umunna MP & Anna Soubry MP*

Making an ideological choice to wrench Britain out of the EU's Customs Union after Brexit would unilaterally surrender the best economic option for our country. It risks harming our economy by introducing tariffs and erecting non-tariff barriers to trade with our largest commercial partner and it risks imposing large amounts of new red tape on British businesses that import and export from Europe. It also puts the integrity of our borders at risk too, through the possibility of time-consuming customs checks that will cause gridlock at ports and the risk of a return to a hard border in Ireland.

Leaving the Customs Union would be a reckless and economically dangerous self-inflicted wound. It doesn't have to be that way. Expert analysis suggests it could cause a £25bn annual hit to our economy, adding billions in costs to companies and increasing the number of firms forced to make customs declarations by 128%. This would be a disastrous result for our economy.

We contend, as do the other officers of the new All Party Parliamentary Group on EU Relations, that Britain should remain in the Customs Union not just during any transitional period but for good. In this paper, we set out the reasons why.

***“Leaving the Customs Union would be a reckless and economically dangerous self-inflicted wound”***

The Government's negotiating position is that Britain will leave the Customs Union when we leave the European Union in March 2019. Ministers have

proposed that we should enter an interim period to ensure “a smooth and orderly transition”, which could involve “a new and time-limited customs union between the UK and the EU Customs Union, based on a shared external tariff and without customs processes and duties between the UK and the EU.” This attempt to recreate all the benefits of Customs Union membership under another name, while avoiding any of the constraints experienced by other members, is very unlikely to be found acceptable by the rest of the EU.

The most important part of the Government's customs policy is their view on what happens in the future once the transitional period is over. It is proposed – and this has been stated time and again – that we will be able to leave the Customs Union and yet retain the benefits of membership. David Davis, the Brexit Secretary, has said that the Government's policy is to achieve “a comprehensive customs agreement that will deliver the exact same benefits as we have.” The Prime Minister has reiterated this, saying that we would have “the same benefits” on trade despite leaving the Customs Union and Single Market. But no detail, however, has been provided on how this might be achieved.

The position paper on customs, produced by the Department for Exiting the European Union in August, was overly optimistic to the point of being irresponsible and equally vague. It did not make any concrete proposal, instead floating two possible options – a “highly streamlined customs arrangement” dependent on new technology to avoid disruption, or a “new customs partnership with the EU, aligning our approach to the customs border in a way that removes the need for a UK-EU customs border.” Again, very little detail is provided, and the Government itself admits this approach would be “unprecedented.” Furthermore, very little domestic work has been done to prepare for this

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change. The House of Commons has not even seen sight of the promised Customs Bill announced by the Government in the Queen's Speech.

Ministers have shown greater pragmatism on several Brexit issues in recent weeks which is welcome. But on the issue of customs, rhetoric simply does not match reality. The hasty choice to leave the Customs Union, and the lack of realism and preparation regarding alternatives, increases the chances that we could face a crash into chaos and confusion in our customs system after Brexit. This would have an immediate and severe impact on our economy, hitting businesses and the jobs that depend upon them, and contrasting brutally with the implicit promise of the Leave campaign: that no-one would be left worse off from Brexit. This paper examines the consequences of the Government's position for our economy and for our borders.

On the economy, there is the severe possibility that leaving the Customs Union could see tariffs imposed on our exports to and imports from the European Union, which is by far and away our largest trading partner. Although the Government are aiming for tariff-free trade with the European Union, there is no free trade deal in existence – except the EU's Customs Union – which eliminates tariffs on any and all goods. Tariffs would increase the cost of UK exports, putting up prices and making them uncompetitive. And it would increase the cost of imported goods, hitting both businesses that are dependent on international supply chains and consumers who buy imported food and fuel every day.

Possibly even more insidious are the non-tariff barriers that leaving the Customs Union would create. Suddenly, goods passing in either direction between the UK and the EU would be subject to

customs checks. Exporters would face Rules of Origin checks in order to certify that third-party countries do not use Britain as a low-tariff backdoor entry route into the European market. The increased costs for firms would be immense, and there are very real concerns that the UK Government lacks the infrastructure needed to make such a new system work. The Chief Executive of the Port of Dover has warned that Operation Stack, the police operation which parks lorries on the M20 when there are disruptions at Dover, could be in place "every day of the year, in perpetuity, if we don't get this situation sorted."

***"On the economy, there is the severe possibility that leaving the Customs Union could see tariffs imposed on our exports to and imports from the European Union"***

The two issues of tariffs and customs are interlinked. The Government suggests that companies could pay these higher tariffs and then reclaim the difference at a later date, which would mean a considerable increase in bureaucracy for small firms in particular. One of the reasons consistently put forward for leaving the EU was to reduce the amount of red tape but the new, more complex, proposals look nothing short of a Brexit bureaucracy bombshell for British businesses.

The concerns created by the Government's decision for our borders are as serious as for our economy. In Ireland, Ministers have promised "frictionless" trade

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between Northern Ireland and the Republic of Ireland. This is vital, both for the economy of the island of Ireland and for the continued development of the peace process. But leaving the Customs Union makes a hard border much more likely, as some sort of customs checks would need to be imposed on goods crossing the border, whether at the border or not.

Leaving the Customs Union will also impact on our border security. The Customs Union has developed means of cooperation between countries in order to fight cross-border crime and terrorism and to control the trade in hazardous, counterfeit and illegal materials. In a dangerous and uncertain world, taking risks with our security is the last thing any responsible Government should be doing.

The Government's argument is that leaving the Customs Union is a necessary condition to have the freedom to negotiate new free trade agreements with economies around the world. All we need to know about this argument, however, is that the Government has refused to say whether it will conduct a cost-benefit analysis comparing the perceived economic benefits of new deals with the expected economic damage caused by leaving the

Customs Union. Furthermore, the Government has provided no evidence to back up its claim that we will simply be able to roll over the trade deals with nearly sixty non-EU countries which the UK enjoys through our membership of the European Union. These all need to be agreed by 2019 and the clock is ticking.

So, the reality of the hard and dangerous Brexit being created by the choice to leave the Customs Union is costly tariff and non-tariff barriers on our businesses. It could lead to gridlock at ports and airports. It raises serious issues for Northern Ireland, and potentially puts our security at risk.

That is why the All-Party Parliamentary Group has, in this paper, issued a series of ten challenges for the Government to meet to guarantee the promises they have made, and we call for the publication of the evidence to back up claims that this can all be achieved in the very limited time available before a new customs system needs to be up and running. In our view, a total commitment to full membership of the Customs Union is what is required in the national interest, not just for a transitional period but for the long-term future.



***Anna Soubry MP and Chuka Umunna MP are co-chairs of the All-Party Parliamentary Group on EU Relations.***

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# About the APPG on EU Relations

The APPG on EU Relations was established at the start of the newly elected Parliament in July 2017. Its members work together to campaign in and out of Parliament with the following objectives:

1. To ensure the UK does not exit the European Union without an agreement on the terms of its withdrawal and future relations with the EU;
2. To ensure that, in the negotiation with the UK's EU partners, all options are kept on the table;
3. To secure the closest possible working with relationship with the EU and its 27 member states.

The co-chairs of the APPG are Chuka Umunna MP and Anna Soubry MP and the vice-chairs are Caroline Lucas MP, Jo Swinson MP, Stephen Gethins MP and Jonathan Edwards MP.

The Secretariat for the APPG on EU Relations is provided by four pro-European groups: Open Britain, Best for Britain, European Movement, and Vote Leave Watch. Though the groups broadly support the APPG, the APPG speaks on behalf of its Parliamentarians and not on behalf of those groups.

The draft of this report was compiled by the Open Britain campaign.

For information about the APPG, please visit the website: <http://www.eurelations.uk/>



# Executive Summary

**The All Party Parliamentary Group on EU Relations advocates continued British membership of the Customs Union.**

## **Economic Impact**

### **Tariffs**

Whether it happens in March 2019 or following a transitional period, withdrawal from the Customs Union would be detrimental to the British economy. While estimates vary, the cost of this has been estimated to be a hit to GDP of up to 1.2%, or £25 billion annually. The reality is that the only way the continuation of 'frictionless trade' between the UK and the EU can be achieved is through continued membership of the Customs Union.

### **Sectoral Impact**

Leaving the Customs Union would significantly increase costs for businesses across most sectors of the UK economy, and could be severely damaging for industries with just-in-time supply chains, such as the automotive sector. The Government's current proposals for new customs arrangements could result in a Brexit bureaucracy bombshell for British businesses, undermining a key commitment made by Leave campaigners that Brexit would reduce red tape.

### **Trade with Non-EU Countries**

All the trade deals the UK currently enjoys with third-party countries as part of the EU will have to be renegotiated, or started from scratch. And deals with new markets will take many years to negotiate, and will involve major trade-offs for minimal reward. It seems clear that the likely loss of trade with the EU and these third countries cannot be offset by new trade deals around the world.

### **Non-Tariff Costs**

Leaving the Customs Union could see UK

companies having to comply with high levels of new bureaucracy and additional costs. Meeting the EU's requirements on Rules of Origin alone could add costs of up to £21.5bn for UK exporters. IT systems will need to be upgraded and improved and the UK will find itself in the position of having to deal with a 128% increase in the number of traders making customs declarations. And there are serious concerns about whether the new Customs Declaration Service will be up and running in time to deal with these changes.

## **Border Impact**

### **Ports, Airports and Rail Terminals**

Leaving the Customs Union would require new customs checks to be introduced. This would require the Government to develop complex new technical infrastructure for enforcement. Britain's ports are currently not equipped with the physical infrastructure or parking bays required to deal with this level of checks on freight entering and departing the UK. This could lead to gridlock around busy UK ports like Dover and Holyhead and damage to the trade in perishable goods.

### **Northern Ireland and Republic of Ireland Border**

The UK's membership of the Customs Union is essential for the maintenance of the currently invisible border between Northern Ireland and the Republic of Ireland. The lack of customs checks at the border is crucial to the economy of Northern Ireland and the Republic alike, and the lack of border posts has profound historical significance. The Government's assertion that Britain can leave the Customs Union and abandon EU-wide product standards, yet still eliminate the need for goods to be checked at the border between the UK and the EU lacks credibility. It is increasingly clear that the

# Executive Summary

only certain way to avoid a hard border is to remain in the Customs Union and the Single Market.

## **Security**

Being a member of the Customs Union, and thereby relying on common customs protections, brings a range of advantages in terms of security and law enforcement. Leaving the Customs Union would require the UK to introduce new, complex and likely expensive elements of security infrastructure to compensate and plug the gaps. The best way to ensure UK customs security, and to prevent the security risks associated with a breakdown in the negotiations, is to commit to remaining in the Customs Union.

## **Challenges for the Government**

The All-Party Parliamentary Group on EU Relations has set out ten challenges for the Government to address to justify the policy of leaving the Customs Union, which cover whether they can guarantee the various promises that have been made about a new customs system, whether Ministers will publish various analyses to support their claims, and whether the Government has the capacity and infrastructure to make this work in the limited time available.

# The Economic Impact of Leaving the Customs Union



# Tariffs

## Key Stats

- The United Kingdom's current annual goods trade with countries within the Customs Union is £466 billion.
- Leaving the Customs Union could cost the UK an estimated £25 billion every year until 2030.
- British exporters could face a further additional cost of £4.5 billion in EU tariffs being levied on British products.

The Government is planning to take the UK out of the European Union's Customs Union, as outlined in its recently published Brexit negotiating position on "Future Customs Arrangements."<sup>1</sup> This decision could have a detrimental impact on the British economy, with estimates of the additional cost from tariffs alone estimated to be at least £4.5 billion.<sup>2</sup> In addition to tariffs, there would be the need for new customs checks and IT systems, introducing further costs for businesses and the UK Government alike. Analysis by the think-tank Open Europe has previously estimated that the British economy will be hit by a "permanent cost" of more than £25bn a year if we withdraw from the Customs Union.<sup>3</sup>

## The current situation inside the Customs Union

Presently, the United Kingdom's annual goods trade with countries within the Customs Union totalled £466 billion in 2016, with products ranging from food to electrical components, most of which enter through the UK's port system.<sup>4</sup> Goods traded inside the Customs Union do not face tariffs, duties or levies, allowing businesses large and small to export and import freely, grow, and create jobs. UK imports from the EU - worth £265 billion in 2016 -

are unimpeded by additional costs, meaning that prices are kept low for consumers. Equally, UK exports to the European Union - valued at £201 billion in 2016 - are unhindered by customs duties, meaning that supplying a market of 500 million people is as legally simplistic as supplying our domestic market of 65 million people.<sup>5</sup>

## The impact of leaving the Customs Union

Leaving the Customs Union would significantly damage the UK economy. Raoul Ruparel, formerly the Director of the Open Europe think-tank and now a Special Adviser to Secretary of State for Exiting the European Union, has estimated that leaving the Customs Union will cost the UK an estimated £25 billion every year until 2030, with GDP being affected by between 1 and 1.2 percentage points in the longer term.<sup>6</sup> *The Independent* has calculated that British exporters would face a further additional cost of £4.5 billion in EU tariffs being levied on British products, which are currently tariff-free.<sup>7</sup>

The Confederation of British Industry (CBI) have stated that additional tariffs on imports from the European Union would have a "significant impact on several sectors, from agriculture to automotive, pushing up prices for UK consumers and making our exports less attractive." UK Steel have noted that outside the Customs Union, British manufacturers would automatically become "less price competitive" on 90% of the goods the UK exports to the EU, hitting the economy and especially the manufacturing sector.<sup>8</sup> Whilst the British Retail Consortium has called for continued tariff-free trade with the EU "in order to avoid upward pressure on

1 [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/637748/Future\\_customs\\_arrangements\\_-\\_a\\_future\\_partnership\\_paper.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/637748/Future_customs_arrangements_-_a_future_partnership_paper.pdf)

2 <http://www.independent.co.uk/news/business/news/brexit-latest-cost-uk-leaving-eu-without-trade-deal-exports-negotiations-david-davis-a7325326.html>

3 <https://www.theguardian.com/politics/2016/oct/11/government-adviser-leaving-eu-customs-union-uk-25bn>

4 [http://www.oxera.com/Latest-Thinking/Publications/Reports/2017/Brexit-ports.aspx#\\_ftn1](http://www.oxera.com/Latest-Thinking/Publications/Reports/2017/Brexit-ports.aspx#_ftn1)

5 <https://www.rte.ie/news/brexit/2017/0423/869678-hogan-may-brexit/>

6 <https://www.theguardian.com/politics/2016/oct/11/government-adviser-leaving-eu-customs-union-uk-25bn>

7 <http://www.independent.co.uk/news/business/news/brexit-latest-cost-uk-leaving-eu-without-trade-deal-exports-negotiations-david-davis-a7325326.html>

8 <http://www.independent.co.uk/news/business/news/brexit-latest-cost-uk-leaving-eu-without-trade-deal-exports-negotiations-david-davis-a7325326.html>

# Tariffs

food prices.”<sup>9</sup> The Food & Drink Federation have warned about not being in the Customs Union, highlighting that “many manufacturers will struggle to substitute EU customers for ones in other parts of the world.”<sup>10</sup>

## The Government’s position paper

The Government’s position paper does not provide any specific figures on the cost to the United Kingdom of being outside of the Customs Union. This looks like a deliberate refusal by the Government to engage with the real costs of leaving the Customs Union, especially when it has been reported that Treasury officials have written an unpublished paper which challenges the Department for International Trade to prove it can line up free-trade agreements with non-EU countries that can outweigh the loss of European trade associated with leaving the Customs Union.<sup>11</sup> This raises questions as to whether the Government is acting through realism or ideology in relation to the economy. In contradictory fashion, the Government’s position paper mentions the need to have “the freest and most frictionless trade possible in goods between the UK and the EU”, whilst at the same time reiterating the point that the UK will be leaving the Customs Union.<sup>12</sup> This is ludicrously optimistic at best and dangerously misleading at worst. Leaving the Customs Union cannot lead to anything other than less free and less frictionless trade than we currently have as members.

The position paper does cover tariffs but only with the Government floating the idea of mirroring EU external trade tariffs for goods transiting the UK from a third country with the final destination being the EU. The Government has made this overture in the negotiations in order to attempt to allow for tariff-free trade between the EU and the UK to take

place. The Government admit, however, that is an untested approach, which seeks an elaborate and complex way of trying to recreate what we already automatically enjoy as members.<sup>13</sup>

### Case Study 1: Leaving the Customs Union could cause UK food prices to rise

Currently, the UK imports 30% of its food, 70% of which comes from the EU. Any introduction of tariffs is therefore likely to have a significant impact on food prices within the UK. As the lowest-income 10% of households allocate 23% of their spending to food, compared with 10% for the highest-income 10%, the burden of higher food prices will fall disproportionately onto the poorest households.<sup>14</sup>

## Conclusion

Whether it happens in March 2019 or following a transitional period, withdrawal from the Customs Union would be detrimental to the British economy. Every major reputable study has shown the likely impact of leaving the Customs Union would be significant and sustained. £466bn of trade the UK does with the EU would be put in jeopardy, hurting businesses and risking jobs. While estimates vary, the cost of this has been estimated to be a hit to GDP of up to 1.2%, or £25 billion annually.

Studies suggesting that the UK could be more prosperous outside the Customs Union rely on highly speculative, and often wildly optimistic, scenarios about future trade deals. The Government has repeatedly said it wants to see the continuation of ‘frictionless trade’ between the UK and the EU. The reality is that the only way this can be achieved is through continued membership of the Customs Union.

<sup>9</sup> [https://bbc.org.uk/media/154186/brexit\\_road\\_map\\_fa\\_184.pdf](https://bbc.org.uk/media/154186/brexit_road_map_fa_184.pdf)

<sup>10</sup> [https://www.fdf.org.uk/corporate\\_pubs/FDF-Manifesto-A-New-UK-EU-Relationship.pdf](https://www.fdf.org.uk/corporate_pubs/FDF-Manifesto-A-New-UK-EU-Relationship.pdf)

<sup>11</sup> <https://www.ft.com/content/46926410-5ffb-11e7-91a7-502f7ee26895>

<sup>12</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/637748/Future\\_customs\\_arrangements\\_-\\_a\\_future\\_partnership\\_paper.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/637748/Future_customs_arrangements_-_a_future_partnership_paper.pdf)

<sup>13</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/637748/Future\\_customs\\_arrangements\\_-\\_a\\_future\\_partnership\\_paper.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/637748/Future_customs_arrangements_-_a_future_partnership_paper.pdf)

<sup>14</sup> <https://www.commonspace.scot/articles/11421/brexit-could-push-food-prices-ifs-report-shows>

# Sectoral Impact

## Key Stats

- The UK car industry faces tariff costs alone of £4.5bn, adding costs of £2.7bn to imports and £1.8bn to exports, pushing up the cost of the average car by £1,500.
- The UK relies on the EU for 70% of its agricultural imports, while 61% of UK agricultural produce is exported to the European Union.
- 70% of the manufacturing industry place a vital importance on the UK's future in the Customs Union.

From the agricultural sector to the automotive sector, businesses across the country benefit from the UK's membership of the Customs Union, allowing companies to trade tariff-free with counterparts across the bloc. Being outside of the Customs Union would increase costs for businesses across most sectors of the UK economy, see an increase in red tape and necessitate bureaucratic customs checks, where now goods move across borders seamlessly.

## The current situation inside the Customs Union

Inside the Customs Union, UK businesses trade freely and without facing customs checks with their largest market, the European Union, which is vital across several sectors of the economy.

For example, the UK relies on the EU for 70% of its **agricultural** imports, while 61% of UK agricultural produce is exported to the European Union.<sup>15</sup> In the **food and drink** industry, according to the Food and Drink Federation (FDF), in 2015, 72.2% of all UK food and non-alcoholic drink exports, worth £8.9bn

went to the EU and 70% of all UK food and non-alcoholic food imports, worth £24.6bn came from the EU.<sup>16</sup>

In the **automotive sector**, according to the Society of Motor Manufacturers and Traders (SMMT) in 2015, 57.5% of car exports were to the EU and 86.5% of new car imports were from the EU. Additionally, the car industry imports 60% of its components, with the majority coming from the EU.<sup>17</sup> The automotive supply chain is extremely complex, with some components travelling multiple times across the Channel before a vehicle is completed.

ADS Group, the representative body for the UK's **aerospace sector**, which adds £27bn to the UK economy and creates 363,000 jobs in the country,<sup>18</sup> say that EU membership (and hence Customs Union membership) provides easy access to EU markets and that EU (and hence Customs Union) membership has been of key benefit to the aerospace, defence, security and space sectors.<sup>19</sup>

Separately, In the **chemicals sector**, according to the Chemical Industries Association, 75% of chemical imports come from the EU and 60% of UK exports go to the EU.<sup>20</sup>

In **manufacturing**, more generally, according to the UK's manufacturing association, the EEF, 52% of total manufactured exports, by value, went to EU member states in 2016. The EEF have also noted that "this trading relationship with the EU is interwoven to a significant degree where supply chains across Europe can be particularly complex."<sup>21</sup> The Institute for Government points out that "while the EU accounts for around half of the UK's total

15 <https://www.nfuonline.com/assets/61142>

16 <https://www.fdf.org.uk/eu-referendum-food-drink-statistics.aspx>

17 <https://www.smmt.co.uk/wp-content/uploads/sites/2/1207-SMMT-position-on-UK-Brexit-negotiations.pdf>

18 <https://www.adsgroup.org.uk/industry-issues/leavingtheeu/>

19 <https://www.adsgroup.org.uk/industry-issues/eu-referendum/>

20 <https://www.cia.org.uk/LinkClick.aspx?fileticket=Yk3TeFjOMP4%3d&portalid=0>

21 [https://www.eef.org.uk/~media/files/resources-and-knowledge/industry-reports/2017/uk-trade-with-the-eu\\_a-new-trading-order-for-the-manufacturing-industry.pdf](https://www.eef.org.uk/~media/files/resources-and-knowledge/industry-reports/2017/uk-trade-with-the-eu_a-new-trading-order-for-the-manufacturing-industry.pdf)

# Sectoral Impact

exports, it accounts for 60% of its exports of intermediate goods. Furthermore, the UK's trade in parts (inputs to be used for further production) is more closely integrated with Europe than the rest of the world."<sup>22</sup>

## The impact of leaving the Customs Union

Outside the Customs Union, UK companies will face additional red tape and tariffs, having to comply with rules and bureaucracy from which they are currently exempt due to the UK's membership of the Customs Union. The CBI have warned about a potential 'cliff-edge' scenario, in which the UK would fully leave the Customs Union without an adequate replacement, and have called for the UK to stay in the Customs Union for a transitional period until a final deal in the negotiations is in force.<sup>23</sup> In the **food and drink sector**, the FDF have called for tariff-free access to the EU, explaining that "many manufacturers will struggle to substitute EU customers for ones in other parts of the world."<sup>24</sup> The food and drink industry is a good example of a sector where the speedy transfer of goods is essential. The Economist noted that post-Brexit trade outside of the Customs Union could see a nightmare scenario for food importers and exporters, where they lose their perishable items due to customs waiting times.<sup>25</sup>

In the **automotive** sector, the SMMT are calling for continued membership of the Customs Union, warning that leaving the Customs Union and

trading with the EU on World Trade Organisation (WTO) rules would see a 10% tariff on vehicles and an average 4.5% tariff on car components. According to SMMT analysis, the UK motor industry faces tariffs costs alone of £4.5bn, adding costs of £2.7bn to imports and £1.8bn to exports, pushing up cost of the average car by £1,500.<sup>26</sup> As regards the **aerospace** sector, ADS have called for access to the Single Market "without burdensome customs administration"<sup>27</sup> and have also noted that "customs and border controls could add significant administrative cost and cause delays at UK or EU borders".<sup>28</sup>

For the UK's **manufacturing industry**, the EEF have called for a customs arrangement which maintains genuinely frictionless trade, including through retaining "zero tariff" rates.<sup>29</sup> Moreover, the EEF have noted while over 70% of their membership have held strong views about the importance of the Single Market and Customs Union and that this was vital to their business interests, "they now face a future in which the UK may not hold membership of either, with no compelling alternative to plan for."<sup>30</sup> The Institute for Government has noted that due to the level of integration between UK and EU supply chains, any introduction of friction would introduce costs through value chains, force businesses to adapt the way they do business and that specialised exports could struggle to find new markets.<sup>31</sup>

In **agriculture**, leaving the Customs Union would increase food costs if tariffs became applicable.<sup>32</sup> The National Farmers Union (NFU) have described

22 <https://www.instituteforgovernment.org.uk/publications/frictionless-trade-brexit-august-2017>

23 <http://www.cbi.org.uk/news/stay-in-single-market-and-a-customs-union-until-final-deal-in-force/>

24 [https://www.fdf.org.uk/corporate\\_pubs/FDF-Manifesto-A-New-UK-EU-Relationship.pdf](https://www.fdf.org.uk/corporate_pubs/FDF-Manifesto-A-New-UK-EU-Relationship.pdf)

25 <https://www.economist.com/news/britain/21720274-while-goods-european-union-pass-through-seamlessly-those-elsewhere-face-long>

26 <https://www.smmt.co.uk/wp-content/uploads/sites/2/1207-SMMT-position-on-UK-Brexit-negotiations.pdf>

27 <https://www.adsgroup.org.uk/industry-issues/leavingtheeu/>

28 <https://www.adsgroup.org.uk/industry-issues/leavingtheeu/>

29 [https://www.eef.org.uk/~media/files/resources-and-knowledge/industry-reports/2017/uk-trade-with-the-eu\\_a-new-trading-order-for-the-manufacturing-industry.pdf](https://www.eef.org.uk/~media/files/resources-and-knowledge/industry-reports/2017/uk-trade-with-the-eu_a-new-trading-order-for-the-manufacturing-industry.pdf)

30 [https://www.eef.org.uk/~media/files/resources-and-knowledge/industry-reports/2017/uk-trade-with-the-eu\\_a-new-trading-order-for-the-manufacturing-industry.pdf](https://www.eef.org.uk/~media/files/resources-and-knowledge/industry-reports/2017/uk-trade-with-the-eu_a-new-trading-order-for-the-manufacturing-industry.pdf)

31 <https://www.instituteforgovernment.org.uk/publications/frictionless-trade-brexit-august-2017>

32 <https://www.nfuonline.com/assets/61142>

# Sectoral Impact

such a scenario as being “absolutely disastrous.”<sup>33</sup> Research from Rabobank has shown that the price of imported food into the UK could rise by as much as 8%, a cost which could be passed on to consumers.<sup>34</sup>

The **British International Freight Association (BIFA)** have said a frictionless-border post-Brexit is of the highest priority.<sup>35</sup> They have called for the Government to push for a deal to remain in the Customs Union.<sup>36</sup> The Chair of **Agency Sector Management (ASM)**, the leading UK customs clearance solution provider, has argued that “the concept of rolling the clock back forty years to introduce frontier clearances, preference and transit documents or agreements, does not seem feasible.”<sup>37</sup>

The **UK Chamber of Shipping** have warned that taking the UK out of the Customs Union would create risk barriers that had previously been removed.<sup>38</sup> While the **Freight Transporters Association** worry that “exiting the Customs Union threatens the imposition of tariffs, border checks, customs declarations and huge amounts of bureaucracy for the significant number of UK businesses that trade in the EU, and the logistics organisations that deliver it for them.”<sup>39</sup>

The **Association of British Pharmaceutical Industries (ABPI)**, has called for free trade with the EU “equivalent to those of a full member of the Customs Union.”<sup>40</sup> While the **Chemical Industries Association (CIA)**, have said that “the best way to guarantee no adverse disruption to business and trade during a transition period, and to guarantee

only one adjustment before reaching a final agreement with the EU, is to seek to retain our existing membership of the Single Market and Customs Union, rather than pursue a ‘close association’ with the Customs Union that still leaves key questions around regulatory continuity, tariff and non-tariff barrier impacts.”<sup>41</sup>

## The Government’s position paper

The Government’s position paper goes into little detail on the sectoral impact of leaving the Customs Union, although it does acknowledge that “some [sectors] may feel left behind”.<sup>42</sup> The Government mentions in its position paper that it is undertaking “a comprehensive stakeholder engagement programme”, although the question that must be asked is why the negotiating position has been published prior to the completion of this stakeholder analysis.<sup>43</sup> It is particularly baffling that the Government has not done any sectoral analysis in the position paper or in anything it has put in the public domain because it has been widely reported that the Government has been undertaking analyses of Brexit across fifty sectors, which it is refusing to publish, due to concerns that it would undermine its own Brexit negotiating position.<sup>44</sup> The Government should publish these analyses, so that the sectors, those people employed in them and the public at large can see for themselves what Ministers think the damage will be of leaving the Customs Union.

33 <http://uk.businessinsider.com/hard-brexit-nfu-national-farmers-union-disastrous-agriculture-minette-batters-2017-1>

34 <https://www.theguardian.com/business/2017/mar/29/brexit-fruit-vegetable-prices-uk-eu>

35 <http://www.bifa.org/news/articles/2017/apr/bifa-says-a-frictionless-border-is-highest-priority-post-brexit>

36 <http://www.bifa.org/news/articles/2017/jun/freight-forwarders-body-joins-calls-for-softer-brexit>

37 <http://www.asm.org.uk/en/news-updates/comments-articles/the-consequences-of-brexit-and-making-plans-for-the-future/>

38 <http://www.cityam.com/261675/britain-risks-enormous-trade-disruption-without-customs>

39 [http://www.fta.co.uk/media\\_and\\_campaigns/press\\_releases/2016/20170609-fta-urges-customs-rethink.html](http://www.fta.co.uk/media_and_campaigns/press_releases/2016/20170609-fta-urges-customs-rethink.html)

40 <http://www.abpi.org.uk/our-work/library/industry/Documents/UK-EU-Steering-Group-Report.pdf>

41 <https://www.cia.org.uk/news/details/Government-making-transition-too-complicated-says-top-manufacturing-exporter>

42 [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/637748/Future\\_customs\\_arrangements\\_-\\_a\\_future\\_partnership\\_paper.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/637748/Future_customs_arrangements_-_a_future_partnership_paper.pdf)

43 [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/637748/Future\\_customs\\_arrangements\\_-\\_a\\_future\\_partnership\\_paper.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/637748/Future_customs_arrangements_-_a_future_partnership_paper.pdf)

44 <http://www.independent.co.uk/news/uk/politics/brexit-50-studies-impact-economy-nurses-eu-a7893216.html>

# Sectoral Impact

## Case Study 2: Leaving the Customs Union could lead to high tariffs for UK car manufacturers

Questions have been raised about the ability of UK car manufacturers to avoid expensive tariffs when exporting their cars to the EU post-Brexit. Current trade pacts require exporters to prove that 50 to 60 percent of a product's components are from the originating country to avoid tariffs. But the Automotive Council reports that, on average, UK cars are now just 44 percent British-made. This would mean an increase in costs and paperwork for UK car manufacturers.

## Conclusion

UK exporters have made it absolutely clear: in order for them to be able to continue to trade freely across Europe and to retain their competitiveness, it is vital that there is no reintroduction of tariff or non-tariff barriers. Leaving the Customs Union would significantly increase costs for businesses across most sectors of the UK economy, and could be severely damaging for industries with just-in-time supply chains, such as the automotive sector.

Businesses, large and small, have also been clear that they require certainty from the Government. Instead, the Government's recent position paper proposed a series of highly inadequate and impractical scenarios. These are unlikely to be acceptable to the European Union, and would in any case constitute a Brexit bureaucracy bombshell for British businesses. Any increase in red tape and bureaucratic customs checks would breach a key commitment made by Leave campaigners

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45 <https://www.bloomberg.com/news/articles/2017-08-21/cars-made-in-u-k-may-struggle-to-be-british-enough-post-brexit>

# Trade with non-EU Countries

Being part of the Customs Union doesn't just affect trade with EU countries but also with countries outside the EU, so-called third countries, where through the Customs Union, the UK currently enjoys access to almost 60 trade agreements world-wide. Outside of the Customs Union, the UK would need to renegotiate these trade agreements and there is no guarantee that these agreements would be as favourable as those which the UK currently enjoys through the Customs Union.

## Key stats

- The UK currently has, through the Customs Union, preferential trade agreements with almost 60 countries around the world.
- The trade negotiations already agreed by the European Union contribute greatly to our £301bn goods export market.
- Leaving the Customs Union would mean the UK needing to guarantee existing trade flows worth £736 billion.

## The current situation inside the Customs Union

Currently, as a member of the Customs Union, the UK is party to preferential trade agreements with almost 60 countries around the world.<sup>46</sup> This includes major economies such as Switzerland, Norway, South Korea, South Africa, Turkey and Mexico. Moreover, through its membership of the Customs Union, the UK is also in the position of potentially being able to enjoy free trade agreements which are in the process of ratification, such as the EU's negotiated Comprehensive Economic and Trade Agreement (CETA) with Canada,

its free trade agreement with Singapore, and its free trade agreement with Vietnam.<sup>47</sup> Additionally, through membership of the Customs Union, the UK is party to ongoing negotiations which the EU is currently undertaking on behalf of all its member states, including with Japan and the United States.<sup>48</sup>

## The impact of leaving the Customs Union

Outside the Customs Union, the UK would need to renegotiate all its existing trade deals with third countries, meaning its trade with the EU, as well as its trade with all countries through which it currently enjoys preferential trade deals with the EU, would be affected. Through membership of the European Union and the Customs Union all the UK's trade negotiations have been handled by the European Commission. Outside of the Customs Union, the UK would need to be able to guarantee all existing trade agreements, regardless of whether these are currently through preferential EU trade deals or trade on regular WTO terms. This would also include existing trade with the EU27. In 2016 UK trade in goods was worth £736bn, with exports valued at £301bn<sup>49</sup> and imports valued at £435bn,<sup>50</sup> equivalent to almost 40% of UK GDP in 2016.<sup>51</sup>

With the UK trading alone, the country will have less economic clout than as part of a bloc of 28 countries in global trade negotiations. Thus, there is absolutely no guarantee that the UK will be able to get the same terms with countries with which the EU has preferential trade deals in place. Professor Alasdair Young, writing for the UK in a Changing Europe in December 2015, noted that "access to other countries' markets rests on cooperation. As the

<sup>46</sup> For more information on countries with which the EU has trade deals in place, please see here: [http://ec.europa.eu/trade/policy/countries-and-regions/agreements/index\\_en.htm#](http://ec.europa.eu/trade/policy/countries-and-regions/agreements/index_en.htm#)

<sup>47</sup> For an overview of EU trade negotiations see here [http://trade.ec.europa.eu/doclib/docs/2012/june/tradoc\\_149622.pdf](http://trade.ec.europa.eu/doclib/docs/2012/june/tradoc_149622.pdf)

<sup>48</sup> [http://trade.ec.europa.eu/doclib/docs/2006/december/tradoc\\_118238.pdf](http://trade.ec.europa.eu/doclib/docs/2006/december/tradoc_118238.pdf)

<sup>49</sup> <https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/bulletins/uktrade/june2017>

<sup>50</sup> <https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/bulletins/uktrade/june2017>

<sup>51</sup> UK GDP in 2016 was measured at being £1.865tr <https://www.ons.gov.uk/economy/grossdomesticproductgdp/timeseries/abmi/pgdp>

# Trade with non-EU Countries

*UK is a member of the WTO, the default position if it left the EU would be that its goods would face the export market's most favoured nation tariffs."<sup>52</sup>*

With the March 2019 Brexit deadline now just over 18 months away, the UK will quickly need to be in a position to negotiate, sign and implement free trade agreements with new markets. However, as the Institute for Government noted in May of this year, "despite the creation of a new trade department, the civil service and ministers are not even close to being ready to negotiate – let alone implement – new global trading relationships."<sup>53</sup>

Additionally, it is highly unlikely that the economic damage caused by leaving the Customs Union and the Single Market could be outweighed by the gains brought by future global trade deals. Although this is not the subject of this pamphlet, the National Institute for Economic & Social Research has noted that leaving the Single Market would be associated with a long-term reduction in trade of between 22%-30%.<sup>54</sup>

## The Government's position paper

In its position paper, the Government acknowledges that the EU is Britain's biggest trading partner, and also notes that the Government would "seek continuity in our existing trade and investment relationships, including those covered by EU Free Trade Agreements."<sup>55</sup> There is absolutely no guarantee that the UK would be able to replicate existing trade deals around the world, especially not on identical terms to the kind of terms it enjoys through membership of the world's largest trading bloc. Furthermore, negotiating future trade deals with non-EU countries may be difficult as they may

already be negotiating a deal with the EU and may want to wait until they see much more detail about what the future UK-EU trading relationship is before opening negotiations with the UK, which was recently reported is the stance of the Japanese Government.<sup>56</sup>

Thus, if Britain leaves the Customs Union, commerce with our biggest trading partner will be hit while the Government can be left only trying to "seek" to maintain existing trade relations with countries around the world. This is a flimsy and risky approach to international trade policy. The timing is also complicated, where at this stage the Government has not agreed any post-EU trade deals at all and the 30 March 2019 deadline is looming. Additionally, the Government notes in its position paper that by taking up an individual seat at the WTO, the UK would be able to prepare its own trade schedules<sup>57</sup>, but as a parliamentary report has noted, these schedules would be subject to approval by all WTO members.<sup>58</sup>

### Case Study 3: Leaving the Customs Union could mean 60 million extra pieces of paperwork for UK businesses

Withdrawing from the Customs Union could create up to 60 million new pieces of paperwork for UK businesses to deal with each year. Customs data indicates that the UK made 70.5m import declarations and 6.5m export declarations relating to trade in non-EU goods. If leaving the Customs Union were to result in comparable amounts of paperwork for EU trade, businesses would need to complete more than 45m import declarations and 15m export declarations each

52 <http://ukandeu.ac.uk/uk-trade-and-the-implications-of-leaving-the-eu/>

53 <https://www.instituteforgovernment.org.uk/publications/taking-back-control-trade-policy>

54 <https://www.niesr.ac.uk/blog/will-new-trade-deals-soften-blow-hard-brexite>

55 [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/637748/Future\\_customs\\_arrangements\\_-\\_a\\_future\\_partnership\\_paper.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/637748/Future_customs_arrangements_-_a_future_partnership_paper.pdf)

56 <https://www.ft.com/content/0047b3c2-8b1e-11e7-a352-e46f43c5825d>

57 [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/637748/Future\\_customs\\_arrangements\\_-\\_a\\_future\\_partnership\\_paper.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/637748/Future_customs_arrangements_-_a_future_partnership_paper.pdf)

58 <https://publications.parliament.uk/pa/ld201617/ldselect/lddeucom/72/7209.htm>

59 <https://www.theguardian.com/politics/2016/dec/11/uk-firms-face-more-not-less-red-tape-if-britain-exits-customs-union>

# Trade with non-EU Countries

## Conclusion

Arguments for leaving the Customs Union often focus on the apparent gains that could be made in boosting British trade. However, the notion that membership of the Customs Union is preventing Britain from trading beyond European shores is deeply flawed. Around two thirds of UK exports go to either the EU or the nearly 60 countries the EU has a trade agreement with, while negotiations are underway with around 70 others. All of these will have to be renegotiated, or started from scratch.

Since the referendum, it has become increasingly clear that deals with new markets will take many years to negotiate, and will involve major trade-offs for minimal reward. Analysis by NIESR suggests the estimated increases in trade from free trade agreements with Australia, Brazil, Canada, China, India, Indonesia, New Zealand and the US would be less than 5%. By contrast, leaving the Single Market will be associated with a long-term reduction in total UK trade of between 22% and 30%.<sup>60</sup>

It seems clear that the likely loss of trade with the EU and these third countries cannot be offset by new trade deals around the world. As Theresa May said herself during the referendum, "we export more to Ireland than we do to China, almost twice as much to Belgium as we do to India, and nearly three times as much to Sweden as we do to Brazil. It is not realistic to think we could just replace European trade with these new markets."<sup>61</sup> To make matters worse, the Department for International Trade is at present unprepared and insufficiently equipped with the resources and experience necessary to negotiate a raft of new trade agreements around the world.

<sup>60</sup> <https://www.niesr.ac.uk/blog/will-new-trade-deals-soften-blow-hard-brexite>

<sup>61</sup> <https://www.conservativehome.com/parliament/2016/04/theresa-mays-speech-on-brexite-full-text.html>

# Non-Tariff Costs

## Key stats

- Rules of Origin costs could add anywhere between 4%-15% of the value of trade to businesses.
- Collecting tariffs on every container and vehicle as well as policing the contents of them has been estimated to cost an extra £1 billion per year.
- Leaving the Customs Union would mean customs officers having to deal with a 128% increase in the number of traders making customs declarations.

## The current situation inside the Customs Union

Currently, as a member of the Customs Union, the UK does not incur any non-tariff economic costs in its trade with the European Union. UK goods can be traded across the EU without having to go through any kind of checks before, at, or beyond the border. This means that lorry drivers need not worry about carrying customs paper work with them and firms do not need to worry about whether or not their goods will spend hours being held up at border checks. Through membership of the Customs Union as well as the Single Market, exporters can easily get their goods to market and consumers can order goods from all over Europe, safe in the knowledge that these goods can be delivered to them in a seamless manner. It is as easy to buy and sell goods in Berlin and Budapest as it is in Birmingham and Belfast.

## The impact of leaving the Customs Union

Countries which are outside the Customs Union and export into it must comply with rules which establish the 'country of origin' of the products which they export. Rules of Origin are intended to ensure products do not use a third country as a low-tariff back door into the European market. This essentially makes exporting into the Customs Union costlier, both through tariffs and the complex red tape involved in calculating the origin of products. Based on the Government's own figures from 2013, 'Rules of Origin costs would add anywhere between 4%-15% to the value of trade.'<sup>62</sup> UK goods exports to the EU in 2016 were valued at £143.4bn,<sup>63</sup> so Rules of Origin costs could add costs to goods exports anywhere between £5.7bn and £21.5bn for UK goods exports to the Customs Union.<sup>64</sup>

Rules of Origin are not the only non-tariff cost. For example, the Government will have to finance a new, untested customs system to deal with the 500 million tonnes of goods that are processed at our ports, airports and train stations annually.<sup>65</sup> Collecting tariffs on every container and vehicle as well as policing the contents of them has been estimated to cost an extra £1 billion per year according to the economic consultancy Oxera.<sup>66</sup> However, the report concedes that this figure is an "extremely conservative estimate" and it "does not account for the economic costs of the uncertainty involved, the extra staff needed [both in the public and private sector], the congestion associated with the potential for Operation Stack...the land required for additional customs checks, or of the wider economic impacts of jobs moving overseas due to uncertainty over the operation of just-in-time logistics."<sup>67</sup> For example, Bob Jones, Head of

<sup>62</sup>[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/271784/bis-14-512-trade-and-investment-balance-of-competence-review-project-report.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/271784/bis-14-512-trade-and-investment-balance-of-competence-review-project-report.pdf)

<sup>63</sup> <http://researchbriefings.files.parliament.uk/documents/CBP-7851/CBP-7851.pdf>

<sup>64</sup> £5.7bn = 4% of £143.4bn; £21.5bn = 15% of £143.4bn

<sup>65</sup> <https://www.britishports.org.uk/news/bpa-briefing-4-0>

<sup>66</sup> [https://www.oxera.com/getmedia/f2e7736b-357d-4833-a647-898f1116f29f/Brexit-Implications-for-ports\\_1.pdf.aspx?ext=.pdf](https://www.oxera.com/getmedia/f2e7736b-357d-4833-a647-898f1116f29f/Brexit-Implications-for-ports_1.pdf.aspx?ext=.pdf)

<sup>67</sup> [https://www.oxera.com/getmedia/f2e7736b-357d-4833-a647-898f1116f29f/Brexit-Implications-for-ports\\_1.pdf.aspx?ext=.pdf](https://www.oxera.com/getmedia/f2e7736b-357d-4833-a647-898f1116f29f/Brexit-Implications-for-ports_1.pdf.aspx?ext=.pdf)

# Non-Tariff Costs

Customs, Excise and International Trade Services at KPMG, estimates that “several thousand more” customs officials would have to be hired if the UK were to leave the Customs Union.<sup>68</sup>

In the Government’s Brexit position paper on customs, they suggest that one potential answer to such problems would be to introduce a smart border system featuring “technology-based solutions”<sup>69</sup> and innovative ICT. However, without specifics, such suggestions offer no actual solutions to the issues created by leaving the Customs Union. Her Majesty’s Revenue and Customs (HMRC) is already working on a new system for electronically processing customs declarations, called the Customs Declaration Service (CDS). This project was launched in 2013-2014, before the UK voted to leave the EU, in order to replace the previous and outdated Customs Handling of Import and Export Freight (CHIEF) system.<sup>70</sup> This project has been under development for over 3 years already, and is not currently scheduled to be completed until January 2019.<sup>71</sup> On average, large public sector ICT projects take around 5 and a half years to develop at a substantial cost.<sup>72</sup> If the UK leaves the Customs Union and the Government does indeed want to introduce ‘smart’, digital-led customs checks, it needs to have a new system in place to come into operation, seamlessly, on midnight on 29th March 2019. That is just 19 months away and the clock is ticking.

In theory, the new CDS system could be tasked with dealing with all the new customs declarations that would be required if the UK were to leave the Customs Union. However, the new system was designed to deal with the current volume of

customs declarations which stands at 55 million per year. If the UK leaves the Customs Union, that volume could increase exponentially to 255 million per year. HMRC estimates that 180,000 traders would have to make customs declarations for the first time if the UK leaves the Customs Union. This is a 128% increase from the 141,000 who currently make customs declarations for trade outside the EU.<sup>73</sup> Even if CDS functions perfectly from Day 1, the strain on the new system would be immense and well above the capacity to which it has been tested. Based on a National Audit Office report<sup>74</sup>, much more clarity and, potentially, funding is required from Government if they expect the new system to take on the added pressure of leaving the Customs Union.

## The Government’s position paper

The Government’s position paper goes into very little detail about non-tariff issues, although it does note that the Government is looking to develop “new innovative facilitations to deliver as frictionless a customs border as possible.”<sup>75</sup> The Government does state that it is looking to minimise costs for business, calling for “collaborate solutions” about moving goods across borders.<sup>76</sup> It provides alternatives to the Customs Union such as being part of the Common Transit Convention, which simplifies border checks for goods in transit into the Customs Union or alternatively having “mutual recognition of “Authorised Economic Operators.”<sup>77</sup>

The “Common Transit Convention” is a procedure which is used for the movement of goods between EU Member States, EFTA countries, Turkey,

68 <https://www.ft.com/content/45f27908-82f4-11e6-8897-2359a58ac7a5>

69 [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/637748/Future\\_customs\\_arrangements\\_-\\_a\\_future\\_partnership\\_paper.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/637748/Future_customs_arrangements_-_a_future_partnership_paper.pdf)

70 <https://www.gov.uk/government/collections/customs-handling-of-import-and-export-freight-chief-replacement-programme>

71 <https://www.nao.org.uk/wp-content/uploads/2017/07/The-Customs-Declaration-Service-Summary.pdf>

72 <https://www.instituteforgovernment.org.uk/blog/challenges-implementing-post-brex-it-customs>

73 <https://www.nao.org.uk/wp-content/uploads/2017/07/The-Customs-Declaration-Service-Summary.pdf>

74 <https://www.nao.org.uk/wp-content/uploads/2017/07/The-Customs-Declaration-Service-Summary.pdf>

75 [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/637748/Future\\_customs\\_arrangements\\_-\\_a\\_future\\_partnership\\_paper.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/637748/Future_customs_arrangements_-_a_future_partnership_paper.pdf)

76 [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/637748/Future\\_customs\\_arrangements\\_-\\_a\\_future\\_partnership\\_paper.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/637748/Future_customs_arrangements_-_a_future_partnership_paper.pdf)

77 [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/637748/Future\\_customs\\_arrangements\\_-\\_a\\_future\\_partnership\\_paper.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/637748/Future_customs_arrangements_-_a_future_partnership_paper.pdf)

# Non-Tariff Costs

Macedonia and Serbia (and also with Andorra and San Marino).<sup>78</sup> According to the European Commission, it "is in general applicable to the movement of non-Union goods for which customs duties and other charges at import are at stake, and of Union goods, which, between their point of departure and point of destination in the EU, have to pass through the territory of a third country."<sup>79</sup> However there is no guarantee that the UK would be able to join this convention as all the non-EU member states which are part of the convention are either part of the EEA, the Schengen Zone, in a Customs Union with the EU or in the process of negotiating EU membership.

As regards Authorised Economic Operators, according to the European Commission, "any economic operator established in the customs territory of the Union who is part of the international supply chain and is involved in customs-related operations, may apply for the AEO status."<sup>80</sup> Given that this is the current requirement, there is no guarantee that UK-based companies would be able to get AEO status unless they also had established operations inside the Customs Union.

The Government has suggested solutions that may not in practice be workable. Crucially, in the paper at no point does the Government provide any kind of cost-benefit analysis of these alternatives and what kind of additional costs they would add to UK businesses and consumers. The Government needs to provide this information if it can honestly say that it is looking to get the best possible deal for the UK in these negotiations. Especially if they are suggesting complex and costly solutions to try and essentially recreate what we already enjoy easily through Customs Union membership.

## Case Study 4: National Audit Office raises concerns over ability of a new customs system to deal with the increased burden of leaving the Customs Union

The National Audit Office (NAO) has noted that there are serious concerns over the Government's new Customs Declaration Service (CDS), due to come into operation in January 2019. The NAO has raised serious questions about its ability to deal with the massively increased volume of customs declarations resulting from the UK leaving the Customs Union. The NAO raised specific issues of staffing, capacity and funding for the new system.<sup>81</sup> And it is no secret that large-scale Government IT contracts have rarely run to either cost or time in recent years.

## Conclusion

Leaving the Customs Union could see UK companies having to comply with high levels of new bureaucracy and additional costs. Meeting the EU's requirements on Rules of Origin alone could add costs of up to £21.5bn for UK exporters. The scale of this bureaucracy bombshell would be extensive and would be a major deterrent to future investment across a wide range of sectors. For sectors with large and integrated, pan-European supply chains, these added costs would be particularly unpalatable.

IT systems will need to be upgraded and improved and the UK will find itself in the position of having to deal with a 128% increase in the number of traders making customs declarations. When up and running, the new Customs Declaration Service will be required to process around 255m customs declarations per year. But there are serious concerns about the ability of HMRC to implement the new system on time, and launching it in the early stages of 2019 as is currently planned would leave very little margin of error for delays or technical glitches.

78 [https://ec.europa.eu/taxation\\_customs/business/customs-procedures/what-is-customs-transit/common-union-transit\\_en](https://ec.europa.eu/taxation_customs/business/customs-procedures/what-is-customs-transit/common-union-transit_en)

79 [https://ec.europa.eu/taxation\\_customs/business/customs-procedures/what-is-customs-transit/common-union-transit\\_en](https://ec.europa.eu/taxation_customs/business/customs-procedures/what-is-customs-transit/common-union-transit_en)

80 [https://ec.europa.eu/taxation\\_customs/general-information-customs/customs-security/authorised-economic-operator-aeo/authorised-economic-operator-aeo\\_en#what\\_is](https://ec.europa.eu/taxation_customs/general-information-customs/customs-security/authorised-economic-operator-aeo/authorised-economic-operator-aeo_en#what_is)

81 [http://www.huffingtonpost.co.uk/entry/brexit-customs-david-davis-ready\\_uk\\_5995cd64e4b0acc593e61d63](http://www.huffingtonpost.co.uk/entry/brexit-customs-david-davis-ready_uk_5995cd64e4b0acc593e61d63)

# The Border Impact of Leaving the Customs Union



# Ports, Airports and Rail Terminals

## Key stats

- An 'Operation Stack' scenario caused by the predicted chaos at Dover could cost £700,000 a day to businesses caught up in the congestion.
- Lorry-loads of goods from outside the Customs Union arriving in Dover are currently subjected to customs checks that take on average 45 minutes each, whereas Customs cleared vehicles pass through seamlessly.
- 95% of UK imports and exports are handled by our ports. Changing the system even slightly risks catastrophe.

## The current situation inside the Customs Union

The Customs Union ensures that customs duties at the borders between EU countries are eradicated, and customs checks are streamlined to ensure smooth passage of intra-EU goods trade. Within the Customs Union, goods can cross borders freely and without delay because each country has agreed to sign up to common rules over labelling, safety and packaging and therefore do not need to go through bureaucratic checks.<sup>82</sup> It is as easy to send a truckload of goods from Cardiff to Cologne as it is to send them from Coventry to Carlisle.<sup>83</sup> This principle applies equally to seaports like Dover, airport terminals like Heathrow, and rail links like the Eurotunnel. The British Ports Association states that "95% of UK imports and exports are handled by our ports and last year UK ports collectively handled just under 500m tonnes of freight, with 63% of this cargo imported into the country."<sup>84</sup>

## The impact of leaving the Customs Union

If the UK were to leave the Customs Union without proper contingency plans in place, the impact on ports, airports and rail terminals would be chaotic. New physical barriers to trade would spring up overnight. Goods traded between the UK and the EU would be treated in the same way as exports from other third countries. In other words, they would be subjected to time-consuming and costly customs checks.<sup>85</sup> To give an example of what this would mean in practice, lorry-loads of goods from outside the Customs Union arriving in Dover are currently subjected to customs checks that take on average 45 minutes each.<sup>86</sup> If similar checks were applied to all exports and imports to and from the EU, this would lead to extensive tail-backs of lorries into ports, especially at Dover, which currently handles an average of 8,000 trucks a day from the EU<sup>87</sup>, and which does not have the physical capacity to store all the goods that would need to be processed.<sup>88</sup> Tim Waggott, Chief Executive of the Port of Dover, has described this as the 'Armageddon' scenario.<sup>89</sup>

In 2015, the UK experienced a taste of such an Armageddon scenario. Due to industrial action by workers at the port of Calais, tail-backs of lorries on the M20 leading into Dover stretched for more than 30 miles. This led to the implementation of Operation Stack, a police procedure by which lorries are parked on the M20. Discussing the potential consequences of leaving the Customs Union without a proper replacement system in place, Tim Waggott warned that "we will see [Operation Stack] every day of the year, in perpetuity, if we don't get this situation sorted."<sup>90</sup> Aside from the chaos this

82 [https://europa.eu/european-union/topics/customs\\_en](https://europa.eu/european-union/topics/customs_en)

83 <https://www.ft.com/content/16bfc152-56ae-11e7-80b6-9bfa4c1f83d2>

84 <https://www.britishports.org.uk/news/bpa-briefing-4-0>

85 <http://ukandeu.ac.uk/research-papers/cost-of-no-deal/>

86 [https://www.oxera.com/getmedia/f2e7736b-357d-4833-a647-898f1116f29f/Brexit-Implications-for-ports\\_1.pdf.aspx?ext=.pdf](https://www.oxera.com/getmedia/f2e7736b-357d-4833-a647-898f1116f29f/Brexit-Implications-for-ports_1.pdf.aspx?ext=.pdf)

87 <http://uk.reuters.com/article/us-britain-eu-shipping-idUKKBN17E119>

88 <https://www.ft.com/content/45f27908-82f4-11e6-8897-2359a58ac7a5>

89 <http://www.independent.co.uk/news/business/news/brexit-confidence-uk-customs-system-collapse-a7660461.html>

90 <http://www.independent.co.uk/news/business/news/brexit-confidence-uk-customs-system-collapse-a7660461.html>

# Ports, Airports and Rail Terminals

would cause for commuters, the cost implications of such a scenario are enormous. The Freight Transport Association (FTA) estimates the cost to the haulage companies caught up in Operation Stack to be £700,000 a day and £250m to the overall UK economy.<sup>91</sup> Businesses reportedly lost £21m worth of stock due to the traffic chaos, with perishable goods simply having to be dumped.<sup>92</sup> The consequences of such a scenario for complex cross-European supply chains, which often operate according to time-sensitive "just-in-time" production protocols, would be disastrous.<sup>93</sup>

The situation would also be massively disruptive at UK airports. John Holland-Kaye, the Chief Executive of Heathrow, has stated that adding customs checks to goods coming in from the EU would be "adding massive overheads for very little gain."<sup>94</sup> For rail links with the EU, the situation is like that at seaports. The Eurotunnel simply lacks the physical capacity to deal with a huge new volume of customs checks and there is little scope for expanding the facilities.<sup>95</sup> John Keefe, the Eurotunnel spokesman, said, "on one side of Eurotunnel we have an area of outstanding beauty, so you can't build to the left, and on the right, we have the motorway; then you have to look at moving up, down, or back along the motorway."<sup>96</sup>

In terms of the financial implications, one report estimates that under a 'high enforcement' scenario, the overall cost of new customs checks as £1 billion per year.<sup>97</sup> However, they concede this is an "extremely conservative estimate", that "does not account for the economic costs of the uncertainty involved, the extra staff needed (for hauliers, ports and customs officials), the congestion associated

with calling Operation Stack...the land required for the additional customs checks, or of the wider economic impacts of jobs moving overseas due to uncertainty over the operation of just-in-time logistics."<sup>98</sup> For example, Bob Jones, Head of Customs, Excise and International Trade Services at KPMG, the professional services firm, estimates that "several thousand more" customs officials would have to be hired if the UK leaves the Customs Union<sup>99</sup>

## The Government's position paper

The UK Government's position paper on potential future customs arrangements with the EU presents two possible future models for customs arrangements: the 'streamlined' model and the 'partnership' model.<sup>100</sup> The 'streamlined' model would still have significant consequences for entry and exit points at the UK border. Under this model, a new customs border would be established between the UK and the EU, but the UK would seek to streamline the process at exit and entry points by introducing technical solutions such as pre-arrival notification of goods crossing borders, and number plate recognition cameras. The idea being that such measures would reduce queues at ports like Dover. However, the position paper does not address in detail how these new technical measures would be realised, how much it would cost or whether the UK currently has the capacity to manage the process. There are currently no examples anywhere in the world of a border which operates entirely through technology alone.

The 'partnership' model, as the Government itself

91 <http://www.bbc.co.uk/news/uk-england-kent-33688822>

92 <https://www.theguardian.com/uk-news/2017/feb/20/post-brex-it-customs-gridlock-could-choke-uk-trade-experts-warn>

93 <https://www.theguardian.com/business/2017/mar/03/brexit-uk-car-industry-mini-britain-eu>

94 <https://www.ft.com/content/45f27908-82f4-11e6-8897-2359a58ac7a5>

95 <https://www.theguardian.com/uk-news/2017/feb/20/post-brex-it-customs-gridlock-could-choke-uk-trade-experts-warn>

96 <https://www.theguardian.com/uk-news/2017/feb/20/post-brex-it-customs-gridlock-could-choke-uk-trade-experts-warn>

97 [https://www.oxera.com/getmedia/f2e7736b-357d-4833-a647-898f1116f29f/Brexit-Implications-for-ports\\_1.pdf.aspx?ext=.pdf](https://www.oxera.com/getmedia/f2e7736b-357d-4833-a647-898f1116f29f/Brexit-Implications-for-ports_1.pdf.aspx?ext=.pdf)

98 [https://www.oxera.com/getmedia/f2e7736b-357d-4833-a647-898f1116f29f/Brexit-Implications-for-ports\\_1.pdf.aspx?ext=.pdf](https://www.oxera.com/getmedia/f2e7736b-357d-4833-a647-898f1116f29f/Brexit-Implications-for-ports_1.pdf.aspx?ext=.pdf)

99 <https://www.ft.com/content/45f27908-82f4-11e6-8897-2359a58ac7a5>

100 [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/637748/Future\\_customs\\_arrangements\\_-\\_a\\_future\\_partnership\\_paper.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/637748/Future_customs_arrangements_-_a_future_partnership_paper.pdf)

# Ports, Airports and Rail Terminals

admits, would be an entirely untested proposition.<sup>101</sup> It would establish a system whereby the UK and the EU 'mirror' each other's approaches at their respective external borders. Goods destined for the EU would then be subject to the required EU tariff, whereas goods remaining in the UK would be subject to the UK tariff. This model would impose complex technical requirements on businesses, including the ability to track all goods imported to the UK to their end-user. Thus, it would introduce extensive new bureaucracy for businesses to deal with, as they might need to pay the higher tariff between the UK and the EU and then reclaim the difference at a later date.<sup>102</sup>

The position paper does draw attention to the new UK customs system currently being developed and which is expected to be launched in January 2019 - the Customs Declaration Service (CDS). The Government's position paper asserts that "CDS will be compliant with the EU's Union Customs Code to ensure continuity for business and will provide modern, digital customs technology, which will ensure HMRC has the flexibility needed to deal with the outcome of the negotiations with the EU."<sup>103</sup> However, it does nothing to address the criticisms presented in the National Audit Office's review of the ongoing development of the CDS system, which raised serious concerns about the new system's capacity to cope with the increased strain that would result from the UK leaving the Customs Union.<sup>104</sup> The Government decided to introduce this system before the referendum and it is only due to come online just two months before the UK is set to leave the EU in March 2019. Given the recent track record of large-scale IT projects in central Government, which are rarely finished either on time or on budget, it is vital that Ministers put contingency

plans in place to ensure that we do not have a situation where there is no customs system in place that is fit-for-purpose for whatever new customs arrangements are in place between the UK and the EU in March 2019.

The Government's position paper also proposes creating a new, interim customs union between the UK and the EU which would be "without customs processes and duties", arguing that this would mean no change in regulation for UK businesses and no extra customs checks at ports.<sup>105</sup> However, this is contested by Ben Chu, the Economics Editor at The Independent, who argued that "even if the EU agrees to the transition and the UK and EU successfully recreate a new temporary union, there will still be major trade frictions. Turkey has a customs union with the EU but Turkish imports still have to be checked at the border to ensure compliance with EU standards. There are long queues of lorries at the Turkish-Bulgarian border."<sup>106</sup>

## Case Study 5: A return to 'hard' borders could mean chaos for UK ports

According to a report by the National Assembly of Wales, any return to a 'hard' customs border between Northern Ireland and Ireland would mean 'chaos' for ports such as Holyhead, in Anglesey. Holyhead is the busiest roll-on-roll-off port in the UK after Dover, with 400,000 trucks a year passing through on the way to and from Dublin. Ferry operators also described how the reintroduction of customs checks could negatively impact their business models.<sup>107</sup>

101 [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/637748/Future\\_customs\\_arrangements\\_-\\_a\\_future\\_partnership\\_paper.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/637748/Future_customs_arrangements_-_a_future_partnership_paper.pdf)

102 [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/637748/Future\\_customs\\_arrangements\\_-\\_a\\_future\\_partnership\\_paper.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/637748/Future_customs_arrangements_-_a_future_partnership_paper.pdf)

103 [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/637748/Future\\_customs\\_arrangements\\_-\\_a\\_future\\_partnership\\_paper.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/637748/Future_customs_arrangements_-_a_future_partnership_paper.pdf)

104 <https://www.nao.org.uk/wp-content/uploads/2017/07/The-Customs-Declaration-Service-Summary.pdf>

105 [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/637748/Future\\_customs\\_arrangements\\_-\\_a\\_future\\_partnership\\_paper.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/637748/Future_customs_arrangements_-_a_future_partnership_paper.pdf)

106 <http://www.independent.co.uk/voices/brexit-customs-union-transition-deal-david-davis-boris-johnson-hardline-brexiters-making-it-up-a7894741.html#commentsDiv>

107 <https://www.theguardian.com/uk-news/2017/aug/16/welsh-port-fears-chaos-of-uk-leaving-customs-union-holyhead-ireland-brexit>

# Ports, Airports and Rail Terminals

## Conclusion

The UK's membership of the Customs Union allows trade to move freely from the UK to the EU and vice-versa. Over the past four decades, extensive supply chains for many manufactured goods have developed between the UK and the rest of the EU. It is now as easy to move goods from Cardiff to Cologne as it is to send them from Coventry to Carlisle.

Leaving the Customs Union would require new customs checks to be introduced. This would impose new costs on UK exporters and would require the Government to develop complex new technical infrastructure for enforcement. Britain's ports are currently not equipped with the physical infrastructure or parking bays required to deal with this level of checks on freight entering and departing the UK. This could lead to gridlock around busy UK ports like Dover and Holyhead, damage to trade in perishable goods, and pressure for areas of outstanding natural beauty to be turned into lorry parks.

# Northern Ireland and Republic of Ireland Border

## Key stats

- An estimated 177,000 lorries, 208,000 vans and 1.85 million cars now cross the border every month.
- Approximately half of Ireland's agri-food imports and exports go to and from the UK.
- 30,000 people cross the border every single day to go to school, work, and about their daily business.

## The current situation inside the Customs Union

The border between Northern Ireland and the Republic of Ireland is the UK's only land border with the EU. As both the UK and the Republic of Ireland are currently full members of the Customs Union and the Single Market, there is no need for any kind of economic border between Northern Ireland and the Republic. Since the Good Friday Agreement in 1998 and with membership of the Customs Union, the border between Northern Ireland and the Republic has essentially become invisible.<sup>108</sup> As the Irish Government itself has stated, "the disappearance of physical border crossings and checkpoints is both a symbol of and a dividend from the success of the peace process."<sup>109</sup> This has led to significant benefits for both the economies and people of the island of Ireland. An estimated 177,000 lorries, 208,000 vans and 1.85 million cars now cross the border every month. Around 30,000 people cross the border each day.<sup>110</sup>

Cross-border trade in agricultural products has become a hugely important market for both

countries, especially in Ireland, where approximately half of its agri-food imports and exports go to and from the UK. Ireland imports 51% of its total agri-food imports from the UK, while the UK also takes 51% of Ireland's total agri-food exports.<sup>111</sup> Some farms even straddle the border.<sup>112</sup> The Republic of Ireland and the UK do share a Common Travel Area (CTA), an agreement which predates Irish and UK membership of the EU.<sup>113</sup> This agreement allows for Irish and UK citizens to move and work freely between the two countries, without being subject to passport controls. In theory, this should not necessarily be affected by the UK leaving the Customs Union and both the UK and Irish governments, as well as the EU,<sup>114</sup> agree that it should be retained.<sup>115</sup> However, and while this is not the subject of this paper, there are significant concerns about how the CTA can be retained when the UK Government is intent on cracking down on immigration, as a potential back door for immigration to the UK could be created along the Northern Ireland-Republic of Ireland border.

## The impact of leaving the Customs Union

On this issue, there is currently a significant gap between rhetoric and reality. All sides have been clear that they do not want a return to a 'hard' border in Northern Ireland.<sup>116</sup> However, in a paper published prior to the EU referendum, entitled The process for withdrawing from the European Union, the UK Government admitted that "outside the EU's Customs Union, it would be necessary to impose customs checks on the movement of goods across the [Northern Irish] border."<sup>117</sup> Even if a trade

108 [http://www.ecfr.eu/article/commentary\\_hard\\_borders\\_of\\_the\\_mind\\_brexit\\_northern\\_ireland\\_and\\_the\\_7273](http://www.ecfr.eu/article/commentary_hard_borders_of_the_mind_brexit_northern_ireland_and_the_7273)

109 [http://www.merrionstreet.ie/en/EU-UK/Key\\_Irish\\_Documents/Government\\_Approach\\_to\\_Brexit\\_Negotiations.pdf](http://www.merrionstreet.ie/en/EU-UK/Key_Irish_Documents/Government_Approach_to_Brexit_Negotiations.pdf)

110 <http://bruegel.org/2017/06/brexit-and-the-future-of-the-irish-border/>

111 <https://www.oireachtas.ie/parliament/media/committees/euaffairs/archiveeuaffairs/Matthews-Opening-statement-Brexit-Feb-2015.pdf>

112 <http://ukandeu.ac.uk/research-papers/cost-of-no-deal/>

113 <http://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7661>

114 <http://www.consilium.europa.eu/en/press/press-releases/2017/04/29-euco-brexit-guidelines/>

115 <http://bruegel.org/2017/06/brexit-and-the-future-of-the-irish-border/>

116 <https://fullfact.org/europe/eu-customs-union-and-irish-border/>

117 [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/504216/The\\_process\\_for\\_withdrawing\\_from\\_the\\_EU\\_print\\_ready.pdf#page=](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/504216/The_process_for_withdrawing_from_the_EU_print_ready.pdf#page=)

# Northern Ireland and Republic of Ireland Border

agreement were reached between the UK and the EU, 'Rules of Origin' checks on goods crossing the Northern Irish border would still be needed to ensure that goods made outside the EU or the UK were not being imported illegally.<sup>118</sup>

One precedent that is often cited as a possible model for future customs checks between Ireland and the UK is the border between Norway and Sweden. Norway is not an EU member state, whereas Sweden is. However, this model would be difficult, if not impossible, to replicate in Ireland because Norway is a member of the Single Market. There is, therefore, full regulatory convergence between the two countries. The UK Government currently plans to withdraw the UK from the Single Market, so this regulatory convergence would not apply. Norway and Sweden do also operate a customs border between the two countries involving spot checks and digital customs declarations<sup>119</sup> and Norway is a member of the EU's Common Transit Convention.<sup>120</sup> As discussed in the previous section, the UK's ability to deliver such a solution, in terms of infrastructure, is very much in doubt. Whether such a solution would be acceptable to the people and businesses of the Republic and Northern Ireland, who have become used to crossing the border completely freely, is also an open question. "Of course, given Northern Ireland's unique history, any return to a physical border would have negative symbolic and psychological consequences", as the Labour MP Conor McGinn has argued.<sup>121</sup>

One possible solution would be to move the customs border to the Irish Sea, thus leaving the land border between Northern Ireland and the

Republic open.<sup>122</sup> However, such a proposal has been emphatically rejected by the Democratic Unionist Party (DUP), with whom the UK Government has a 'confidence and supply' deal.<sup>123</sup> On the other hand, there is one group who would likely benefit from the reintroduction of a hard border in Ireland: smugglers.<sup>124</sup> The border between the Republic and Northern Ireland stretches for over 300 miles and winds its way through towns, villages and remote countryside. There are examples of houses with the front door opening on to the Republic and the back door leading to Northern Ireland.<sup>125</sup> Effectively policing such a border would be nigh-on impossible.

Of course, there is a relatively simple solution to the conundrum Brexit has created on the island of Ireland. If the UK were to stay in the Customs Union and the Single Market, all of these problems would disappear.

## The Government's position paper

The Government's position paper on Northern Ireland and Ireland sets out its ambition to avoid the re-imposition of a hard border on the island of Ireland. More specifically, it commits to "[avoiding] any physical border infrastructure in either the United Kingdom or Ireland, for any purpose (including customs or agri-food checks)."<sup>126</sup> It acknowledges the vital nature of cross-border trade between Northern Ireland and Ireland, with Ireland being Northern Ireland's biggest external trading partner.<sup>127</sup> It also agrees with the Irish government's assessment of the open and invisible border as "the most tangible symbol of the peace process."<sup>128</sup>

118 <https://fullfact.org/europe/eu-referendum-and-irish-border/>

119 <https://fullfact.org/europe/eu-referendum-and-irish-border/>

120 [http://ec.europa.eu/taxation\\_customs/business/customs-procedures/what-is-customs-transit/common-union-transit\\_en](http://ec.europa.eu/taxation_customs/business/customs-procedures/what-is-customs-transit/common-union-transit_en)

121 [https://twitter.com/Open\\_Britain/status/897790312994746368](https://twitter.com/Open_Britain/status/897790312994746368)

122 <https://www.irishtimes.com/opinion/brexit-there-will-be-a-hard-border-the-only-question-is-where-1.3018746>

123 <http://www.telegraph.co.uk/news/2017/07/28/dublin-pushes-irish-sea-new-border-uk-brexit/>

124 <http://www.politico.eu/article/brexit-means-good-news-for-irish-smugglers/>

125 <http://www.politico.eu/article/brexit-means-good-news-for-irish-smugglers/>

126 [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/638135/6.3703\\_DEXEU\\_Northern\\_Ireland\\_and\\_Ireland\\_INTERACTIVE.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/638135/6.3703_DEXEU_Northern_Ireland_and_Ireland_INTERACTIVE.pdf)

127 [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/638135/6.3703\\_DEXEU\\_Northern\\_Ireland\\_and\\_Ireland\\_INTERACTIVE.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/638135/6.3703_DEXEU_Northern_Ireland_and_Ireland_INTERACTIVE.pdf)

128 [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/638135/6.3703\\_DEXEU\\_Northern\\_Ireland\\_and\\_Ireland\\_INTERACTIVE.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/638135/6.3703_DEXEU_Northern_Ireland_and_Ireland_INTERACTIVE.pdf)

# Northern Ireland and Republic of Ireland Border

While it is clearly positive that the Government has outlined its commitment to maintaining the currently invisible border between Northern Ireland and Ireland, it remains unclear how exactly this aspiration will be achieved. Some kind of customs border is a basic reality of withdrawing the UK from the Customs Union. Any customs border requires some level of enforcement, otherwise it is meaningless. Even light-touch borders such as the one between Sweden and Norway involves customs checks of some kind.<sup>129</sup> Despite the Government's publication of its position paper on Northern Ireland and Ireland, it remains unclear how a customs border can be enforced without any kind of physical border infrastructure whatsoever.

On agri-food products, the Government's position paper proposes avoiding any need for sanitary or phytosanitary checks on goods crossing the border by the UK maintaining regulatory equivalence with the EU in that area.<sup>130</sup> However, that raises issues relating to the UK's ability to negotiate future international trade agreements. If the UK has no flexibility to diverge from EU regulatory standards on agri-food products, it is hard to see how any such trade negotiations could be concluded successfully. This raises the question of what benefit would be derived from the UK leaving the Customs Union in the first place.

## Conclusion

The UK's membership of the Customs Union is essential for the maintenance of the currently invisible border between Northern Ireland the Republic of Ireland. The lack of customs checks at the border is crucial to the economy of Northern Ireland and the Republic alike, and the lack of border posts has profound historical significance.

The Government's assertion that Britain can leave the Customs Union and abandon EU-wide product standards, yet still eliminate the need for goods to be checked at the border between the UK and the EU lacks credibility, and its recent position papers on the Customs Union and the Northern Ireland border failed to provide the necessary level of reassurance. Its failure to bridge the gap between the Government's rhetoric on Northern Ireland and the reality of the situation now risks further delaying the start of the second round of negotiations with the EU on the future partnership.

All sides involved in the Brexit negotiations agree that they do not want a return to a hard border. It is increasingly clear that the only certain way to avoid this is to remain in the Customs Union and the Single Market.

### Case Study 6: Leaving the Customs Union could incentivise smuggling along the border between Northern Ireland and Ireland

The Government's proposal to leave the Customs Union could benefit smugglers operating across the border between Northern Ireland and Ireland. A report by the Treasury found that complying with the procedures required to cross the border after the UK leaves the Customs Union could increase costs to businesses by up to 24%. Politico describes how this creates a profit incentive for traders willing to sidestep the rules.<sup>131</sup>

<sup>129</sup> <https://www.irishtimes.com/news/world/europe/close-sweden-norway-ties-despite-eu-border-dividing-them-1.2683072>

<sup>130</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/638135/6.3703\\_DEXEU\\_Northern\\_Ireland\\_and\\_Ireland\\_INTERACTIVE.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/638135/6.3703_DEXEU_Northern_Ireland_and_Ireland_INTERACTIVE.pdf)

<sup>131</sup> <http://www.politico.eu/article/brexit-means-good-news-for-irish-smugglers/>

# Security

## Key stats

- Leaving the Customs Union could necessitate the hiring of thousands of new security and customs officials, with some estimates saying as many as 5,000.
- The UK would have to replicate or replace existing security mechanisms for all goods entering the country and not just those from outside the Customs Union as it does currently.
- Leaving the Customs Union could increase the likelihood of smuggling into and out of the UK.

## The current situation inside the Customs Union

The Customs Union is not only an economic mechanism, it also includes several security protections. Customs protections include ensuring exports of sensitive technology (which could be used to make nuclear or chemical weapons) are legitimate; tackling counterfeit goods and piracy; ensuring anyone travelling with large amounts of cash (or equivalent) is not laundering money or evading tax; helping police and immigration services fight trafficking in people, drugs, pornography and firearms – all factors in organised crime and terrorism; and enforcing rules that protect the environment and health & safety (e.g. refusing entry to contaminated foodstuffs or potentially dangerous electrical appliances).<sup>132</sup> These priorities all form part of a coordinated effort across members of the Customs Union to protect the security of its member states.

## The impact of leaving the Customs Union

<sup>132</sup> [https://europa.eu/european-union/topics/customs\\_en](https://europa.eu/european-union/topics/customs_en)

<sup>133</sup> [https://www.rand.org/content/dam/rand/pubs/research\\_reports/RR1700/RR1786/RAND\\_RR1786.pdf](https://www.rand.org/content/dam/rand/pubs/research_reports/RR1700/RR1786/RAND_RR1786.pdf)

<sup>134</sup> <https://www.techuk.org/insights/news/item/10659-government-must-ensure-uk-tech-can-thrive-in-new-customs-arrangements>

<sup>135</sup> <https://www.theguardian.com/uk-news/2017/jul/12/uks-smaller-ports-left-largely-unvisited-by-border-officials-report-finds>

<sup>136</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/637748/Future\\_customs\\_arrangements\\_-\\_a\\_future\\_partnership\\_paper.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/637748/Future_customs_arrangements_-_a_future_partnership_paper.pdf)

<sup>137</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/637748/Future\\_customs\\_arrangements\\_-\\_a\\_future\\_partnership\\_paper.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/637748/Future_customs_arrangements_-_a_future_partnership_paper.pdf)

If the UK were to leave the Customs Union, it would have to introduce its own more stringent checks to make sure that border security is upheld. This would require new infrastructure, new staff, new funding and could increase transit times and costs.<sup>133</sup> All imports and exports to the EU could require separate security checks,<sup>134</sup> which would impose an extra burden on security staff at the border. The current consensus is that the UK Border Force is already overstretched, which leaves UK ports vulnerable to smuggling.<sup>135</sup> Leaving the Customs Union would certainly exacerbate this situation further.

## The Government's position paper

The Government's position paper sets out the relatively vague objective of "ensuring safety and security at UK borders, striking the right balance between security and supporting the smooth flow of goods."<sup>136</sup> The paper also expresses a desire to "contribute to the wider safety and security agenda, for example by: negotiating customs co-operation, mutual assistance and data-sharing which replicates existing levels of UK cooperation with other Member States to reduce revenue and security risks to the UK, and improve targeting of inspections, reducing delays for legitimate traders."<sup>137</sup>

However, the paper does not describe in any detail how the Government plans to achieve these objectives. Reducing revenue and security risks to the UK outside the Customs Union would require extensive hiring of new staff and the creation of complex new security processes and infrastructure. Without concrete details, it is difficult to see how these aspirations can be met.

# Security

## Case Study 7: UK will need to hire up to 5,000 new customs officials if it leaves the Customs Union

If the UK leaves the Customs Union, the Government would need to hire an estimated 5,000 new customs officials to deal with the increased volume of work. This is according to Bob Jones, Head of Customs, Excise and International Trade Services at KPMG. Even within the Customs Union, the UK has a relatively small number of customs officials compared to other major European countries (5,000 in the UK, compared to 35,000 in Germany and 16,000 in France).<sup>138</sup>

## Conclusion

Being a member of the Customs Union, and thereby relying on common customs protections, brings a range of advantages in terms of security and law enforcement. Leaving the Customs Union would require the UK to introduce new, complex and likely expensive elements of security infrastructure to compensate and plug the gaps. As yet, the Government has failed to provide any detail on how it plans to achieve this.

Furthermore, the Government's insistence that Britain will leave the Customs Union in March 2019, and its determination to secure a bespoke transitional deal, substantially raises the risk of no deal being reached. In addition to the substantial economic consequences of such an outcome, there would also be very real implications for national security, with the potential loss of UK-EU cooperation in areas including counter-terrorism and cross-border crime. The best way to ensure UK customs security, and to prevent the security risks associated with a breakdown in the negotiations, is to commit to remaining in the Customs Union

<sup>138</sup> <https://www.ft.com/content/f3547ad2-abf9-11e6-ba7d-76378e4fef24>

# Challenges to the Government

***The All-Party Parliamentary Group on UK and EU relations has set out ten challenges for the Government to address to justify their policy of leaving the Customs Union.***

1. Can the Government guarantee that the UK economy and UK businesses will enjoy the exact same benefits of Customs Union membership, as they have repeatedly promised, after March 29th 2019? And, if they cannot, can they confirm how much leaving the Customs Union is expected to cost the UK economy?
2. Can the Government guarantee that there will be no return to a hard border or an economic border between Northern Ireland and the Republic of Ireland, as is now the case?
3. Will the Government outline, in detail, what plans have been put in place to deal with any increased volume of traffic around the UK's exit and entry points, including sea ports such as Dover, and what the costs of such plans will be?
4. Can the Government guarantee that new trade deals with third party countries will make up for the value of trade lost by leaving the Customs Union? And if they can, will they produce a cost-benefit analysis to back up that assertion?
5. Will the Government provide greater clarity as to how it intends to negotiate and sign new trade deals whilst still operating within an interim customs arrangement with the EU and while the UK's future trading relationship with the EU remains undecided?
6. Will the Government publish the fifty analyses it has undertaken into the impact of leaving the Customs Union on various sectors of the UK economy so that it can be seen by businesses, employees and the public at large? And, if not, why not?
7. Can the Government guarantee that its planned new digital customs system, the Customs Declaration Service (CDS), will be fully operational by January 2019 and that it will have been fully tested to ensure it can deal with the increased volume of declarations associated with leaving the Customs Union? Can the Government also outline what contingency plans are in place if the system is not fully operational before the UK is due to leave the EU in March 2019?
8. Will the Government publish an assessment of the number of new customs officials it believes will be required as a result of leaving the Customs Union and what the estimated additional annual cost will be?
9. Will the Government publish a detailed breakdown of the expected additional bureaucratic requirements for British businesses - both in terms of red tape volume and additional costs - they expect from leaving the Customs Union?
10. Will the Government provide more detail about the types and the costs of new technological solutions to dealing with both customs checks and border checks and what evidence they have from other countries to suggest that they can be successfully introduced in the UK?