

# Open Europe's proposals for a trade deal outside the Customs Union

Open Europe did not win too many friends in the run-up to last June's referendum vote, its "reformist" position created mistrust among both leavers and remainers, being too supportive of staying in for the former and too EU-critical for the latter.

Following the vote to leave, Open Europe has continued to contribute to the debate, producing analysis now aimed at securing what is, in its opinion, the best possible Brexit deal.

Its latest offering came out earlier this week. Entitled "*Nothing to declare: A plan for UK-EU trade outside the Customs Union*", the full paper can be downloaded from the Open Europe Website.

During the referendum campaign, the customs union hardly featured as an issue, unlike the single market. This is unsurprising as the leave campaign emphasized the importance of being able to strike our own trade deals – something which is impossible as a member of the customs union.

Open Europe's key points are as follows:-

1. ***The UK should leave the EU's Customs Union (EUCU).*** The UK Government has stated its intention to leave key parts of EUCU (the Common External Tariff and the Common Commercial Policy). Open Europe's assessment is that leaving these and EUCU overall is correct. Brexit means the UK must be able to shape its own trade policy. It can only do so outside of EUCU.

2. ***The UK should not seek a 'half-in, half-out' arrangement, which would be the worst of all worlds. The UK should leave EUCU entirely to maximise opportunities.*** Prime Minister Theresa May has suggested that she is open to being an "associate member" of EUCU or remaining a signatory to elements of it. Open Europe believes that, while it is sensible to keep an open mind, no 'half-in' option is better than being fully out. Nonetheless, the UK should consider retaining membership of some relevant conventions.
3. ***It is in both the UK's and EU's interest quickly to secure full cooperation on the practicalities and administration of customs as part of a comprehensive Free Trade Agreement (FTA).*** Such an agreement could be a chapter in a UK-EU FTA or an accompanying, discrete customs facilitation agreement. The EU already has agreements on customs facilitation with non-members, including Switzerland and Canada. A comprehensive UK-EU FTA will ensure the continuation of tariff-free UK-EU trade and minimise customs delays.
4. ***There will inevitably be a degree of cost to the UK economy associated with leaving EUCU.*** Some costs will be one-off adaptation costs (e.g. technology investment which may have benefited the UK anyway); other costs will be on-going frictional costs to UK-EU trade. These costs can be minimised and may be offset by trade liberalisation with non-EU partners.
5. ***The UK must take action now to minimise costs and seize new opportunities.*** Some steps are unilateral, domestic reforms; others are bilateral with specific EU members (above all Ireland); other negotiations need to happen at EU level, or indeed more broadly.
6. ***There will also be costs to the EU economy and these costs will be much greater if full customs cooperation***

***with the UK is not secured.*** The costs to the EU economy will be greatest in those countries and industries which export the most to the UK. If comprehensive customs cooperation and an FTA are secured, these costs will be minimised.

7. ***There are challenges and opportunities from leaving EUCU but these vary from sector to sector, and even between companies in the same industry.*** Individual companies will need to look carefully at their supply chains and consider making adjustments where appropriate.
8. ***Free trade does not require a customs union and over half of UK trade happens without it.*** Most UK trade (51.5% in 2015) is not with the EU. Non-EU trade takes place without a customs union and is growing faster than trade with the EU. In 2015, the US was the largest recipient of UK goods exports (16.6%). There is no EU-US FTA, let alone a customs union.
9. ***Companies with complex supply chains can trade without a customs union.*** For example, automotive supply chains cross the US-Canada border. Both countries are North American Free Trade Agreement (NAFTA) members, but are not in a customs union. Nonetheless, leaving EUCU will challenge companies with complex supply chains. To address challenges, the UK and EU need an FTA to eliminate tariffs, to agree liberal cumulation so more products transformed in either the UK or EU can be considered as originating anywhere else in the UK or EU, and to cooperate and use technology to minimise bureaucratic delays and costs.
10. ***The UK should 'grandfather' – i.e. replicate – the FTAs that the EU has concluded with third countries.*** The UK, as an EU member, is currently party to over 30 FTAs with over 60 non-EU countries. The Canada-EU FTA, CETA, is one example. Discussions on how to 'grandfather' these

agreements should be underway bilaterally between the UK and third countries but also need to engage the EU. Protecting these agreements will secure the freest possible trade, safeguarding existing global supply chains, and supporting growth in global trade.

11. ***There is an extremely strong economic case for full UK-EU customs cooperation; the question of whether it is achieved or not is primarily political as much as practical.*** Reaching a comprehensive UK-EU customs agreement will be technically easier than other trade agreements. As an EU member, the UK's customs systems are already fully recognised by EU members and the UK already applies EU product standards. Businesses across the EU are used to tariff-free trade – so there will be less pressure to defend specific industries.
12. ***The UK and EU should consider a transition period to extend the UK's EUCU membership for one or even two years.*** Theresa May has suggested “phased implementation” for new arrangements on customs systems. The two-year Article 50 timetable is a challenging limit for negotiations. A transitional period would increase chances of a favourable deal for both sides, and minimise potential disruption to UK and EU business. It would also give governments and business time to adapt, including by upgrading customs procedures and IT. Agreement on a transition period is most useful early in the Brexit negotiations to reduce the risk of companies making rushed decisions on changes.