

TRADE IN A CUSTOMS UNION

British businesses, particularly small firms, are excited by the Government's increased focus on the UK's role in the world and international trade. But they have also been clear that their biggest priority for the UK's trade is a deep relationship with their largest trading partner – the EU. Getting the balance right will be a challenge, so the CBI has been consulting with hundreds of companies to support policymakers with their tough decisions. And CBI members are clear: **based on current technology, a customs union is essential for frictionless UK-EU trade, but the UK has huge potential to boost its exports from inside a customs union by:**

- Striking deals in parallel and partnership with the EU
- Signing international trade deals on services
- Addressing market access issues bilaterally
- Making the UK economy match fit to export

What does a Customs Union do?

- ✓ Provides the foundation for frictionless trade
- ✓ Reduces need for infrastructure at Irish border
- ✓ Allows the UK to strike deals on services, procurement, e-commerce and more
- ✗ Does not include freedom of movement
- ✗ Does not include regulation
- ✗ Does not include trade in services

CBI members have come to this view based on their own experiences trading abroad, and the economy evidence. The National Institute of Economic and Social Research (NIESR) estimates that the increases to UK trade from new FTAs with the USA, Canada, Australia and New Zealand combined are less than 3% of current total trade in goods and services. Meanwhile, the estimated trade increase from concluding FTAs with the BRIIC (Brazil, Russia, India, Indonesia, China and South Africa) countries is smaller, at just over 2%. In contrast, the evidence from NIESR shows that leaving the single market would lead to a long-term reduction in total UK trade of between 22% and 30%.

As the world's fifth largest economy, the UK should look to negotiate a new, bespoke version that would improve on the Turkish model

The EU-Turkey Customs Union is just one example of a Customs Union and not a template for the UK. The UK could negotiate one that would work better for its economy and reflect the importance of UK trade in goods to the EU in the following ways:

- A Customs Union that includes key sectors such as agriculture and steel.
- The UK having the ability to influence future EU international trade policy and agreements through a formalised structure.
- Developing a legally binding provision to ensure that the UK benefits simultaneously from EU FTAs concluded with third countries.
- Enhanced joint decision-making mechanisms, including UK participation in the relevant EU agencies and committees, to facilitate the functioning of the new Customs Union.

Additionally, the UK should ensure that being part of a Customs Union with the EU means UK firms can continue to benefit from the 40 trade deals the EU has with over 70 countries. These cover approximately 15% of UK export destinations outside the EU and are important to a range of sectors – from whisky to automotive.

A bold international agenda from within a Customs Union

The UK Government has abundant potential to boost trade with the rest of the world. That includes striking trade deals which it will need to do in partnership or in parallel with the EU, and independent deals

covered areas such as investment, intellectual property, procurement and – essentially – services trade, which accounts for 45% of UK exports but 80% of the UK economy.

But businesses put a much higher priority on other ways for the UK to boost international trade beyond free trade agreements, including:

1. **Commercial diplomacy** – using Britain’s political capital to influence market access overseas.
2. **Bilateral investment treaties** – strengthening support for UK companies investing in foreign countries.
3. **Regulatory cooperation** – reducing some of the key barriers to trade in goods and services.
4. **Supranational efforts** – leveraging the UK’s position at the WTO and OECD.

Case study: Boosting an already thriving relationship with the US from within a Customs Union

The UK and the USA already have the world’s largest bilateral trading relationship. Over a trillion dollars of combined foreign direct investment from one side into the other has created over one million jobs in each country – jobs that are high-paying and spread across every region and every sector. Both countries should build upon these strong foundations by:

- Enabling greater flow of talent and fewer restrictions on intracompany transfers and temporary business visas in the managerial, engineering, consultancy, and creative industries.
- Relaxing U.S. restrictions on foreign ownership and possession in the aviation and maritime industries.
- Ensuring that the U.S. Government’s screening process of foreign investment for national security purposes does not disrupt British investment stateside.
- Mutual recognition of classification and safety standards in industries that traffic highly across the Atlantic (chemicals, pharmaceuticals, cosmetics, etc).

Boosting UK exports starts at home. Trade deals and addressing access issues in specific markets have to come hand in hand with the right business environment to enable international expansion. Germany, for example, sells 4.7 times more to China than the UK does, without a trade deal, because of the steps taken domestically to gear the country towards exports.

There are numerous examples of how the UK Government can support businesses getting match fit to export, for example:

1. Businesses can only sell abroad when they create products wanted by others. **Innovation** is a key driver of international competitiveness. Driving R&D spend up to 3% would ensure the UK can continue to produce world-leading products and be at the forefront of emerging sectors.
2. Raising awareness of **UK Export Finance**. In 2017/18, UKEF supported UK businesses to win £466 million of export contracts. However, more can be done to ensure SMEs have access to its products would support exports of firms that find it most difficult to expand abroad.
3. **Mobility of staff across borders** is at the heart of trade and absolutely fundamental for service exports. For example, in manufacturing, the follow up servicing and maintenance contracts are often the most profitable part of a deal. This relies on British engineers being able to easily travel to third-countries to carry out such installations and repairs.

Conclusion

UK business is ready to play its part in boosting international trade. The UK’s trade priorities should be driven by evidence, not ideology, and the prime market that British businesses wants the closest relationship with remains the EU, and a Customs Union is the foundation for this alongside a deep regulatory relationship.

But a Customs Union with the EU will not stop the UK being able to grow internationally. From within a Customs Union, the UK can strike ambitious trade deals across the globe that benefit its services sector. We can use our first class diplomatic power to knock down barriers to British companies in India, the US and China without the need for trade deals. We can make the UK match fit to take on the world. We can have the best of both worlds, if we’re willing to work for it.

For more information, please contact Nicola.Hetherington@cbi.org.uk or Will.McGarrigle@cbi.org.uk or visit <https://www.cbi.org.uk/our-campaigns/evidence-over-ideology-a-brex-it-that-works-for-all/>