

CBI briefing on Government's proposals for the UK's future customs agreement with the EU

On 15th August, the Government published a policy paper on customs, [Future customs arrangements: A Future Partnership Paper](#). The paper makes the case for interim arrangements, and setting out two options for the UK's future customs arrangement with the EU. This paper intends to clarify the Government's aspirations for the UK's future customs arrangements to the EU, but also invites comment from business ahead of a White Paper on this which is scheduled for the autumn.

Any final customs arrangement will be subject to negotiation with the EU, but for now the EU has declined to comment on these proposals before the first phase of the negotiations relating to the withdrawal arrangements has been concluded.

The Government's strategic objectives are the right ones

The Government has upheld its intention to leave the EU Customs Union as we exit the European Union, but at the same time has reiterated its commitment to *'a new customs arrangement that facilitates the freest and most frictionless trade possible in goods between the UK and the EU, and allows the UK to forge new trade relationships with its partners in Europe and around the world.'*

In this customs paper, Government has set out three strategic objectives that will guide its assessment of any new customs arrangement:

- ensuring UK-EU trade is as frictionless as possible;
- avoiding a 'hard border' between Ireland and Northern Ireland; and
- establishing an independent international trade policy.

The clear commitment to free and frictionless trade with the EU is welcome, but achieving this alongside an independent international trade policy will be a tricky balancing act. Government is now giving immediate priority to guaranteeing future free trade between the UK and the EU, which businesses will be happy to see.

Some positive developments on timelines and avoiding a cliff edge

A further welcome development is the recognition that businesses and consumers on both sides would benefit from time to implement any new system so that a cliff-edge can be avoided. The Government is proposing a *'model of close association with the EU Customs Union for a time-limited interim period'* during which the UK would pursue new trade negotiations with non-EU countries, but would be willing to hold off on signing new deals until after the interim period if the EU required this.

This is a very positive step in the right direction, however the details – including the length of such an interim period – remain unclear and will need to be negotiated with the EU. Importantly, any interim arrangement must also cover a broad range of issues beyond customs if a cliff edge is to be avoided.

Two different options set out

Keeping in mind the balancing act between free and frictionless trade with the EU and the pursuit of an independent international trade policy, the Government has put forward two options that it believes could deliver both. These two different approaches represent different choices about the UK's future relationship with the EU and with other countries. An outline of both options was given in the paper and this is summarised below, but important details still need to be defined.

Option 1: A highly streamlined customs arrangement between the UK and the EU

This option essentially means reinstating a customs border between the UK and the EU and trading with each other as third countries, while seeking to streamline and simplify requirements so that additional requirements on UK-EU trade are kept to a minimum.

The UK would choose to set its own domestic customs arrangements and would, as required by international rules, extend the customs processes currently applied to non-EU countries to all EU Member States. This would entail:

- Declaring imports and exports to HMRC and enabling the verification of these

declarations, incl customs declarations, licences, safety and security information, compliance with Rules of Origin

- Payment of customs duties and import VAT

To mitigate any 'friction' to the flow of goods caused by this, the Government is suggesting four measures:

- 1) **Simplifying requirements** – could include negotiating a continued waiver on entry and exit summary declarations, and membership of the Common Transit Convention
- 2) **Reducing pressure and delays at ports and airports** – could include the negotiating mutual recognition of AEO and then enabling faster clearance, and technology based pre-arrival notifications for roll-on, roll-off ports
- 3) **Contributing to the wider safety and security agenda** – could include the negotiation of customs cooperation, mutual assistance and data sharing with the aim to improve targeting of inspections
- 4) **Reducing compliance cost and time through unilateral measures on imports** – could include self-assessment, increased automation, streamlining existing requirements eg relating to duty suspensions and reliefs, and making existing domestic simplified procedures easier to assess

However, some important challenges remain under this scenario. For one, many elements of this proposal will be subject to negotiations with the EU. And it appears that the domestic solutions would require significant additional resource within Government, which will take time to build up. In any case, it is hard to see how tangible delays and costs can fully be avoided.

Option 2: A new customs partnership with the EU

This option is less focused specific practical measures than the first option. The idea is for the UK to be outside of a customs union, but to nevertheless avoid customs processes at the border.

Specifically, this option envisages the UK and the EU partnering up to operate an import regime for goods intended for the EU market that is fully aligned with the EU's external customs border, even if those goods are in part produced in the UK. For any goods travelling to the EU via the UK, the UK would apply EU tariffs and rules of origin.

Under this model, the flow of goods between the UK and the EU would continue in its current form

for customs purposes, and the UK would be able to negotiate independent trade policies, including tariffs, with other non-EU countries. Crucially, robust enforcement would be required to then distinguish between international imports to the UK that are consumed in the UK and those that are intended to travel further into the EU market. The Government suggests a tracking mechanisms or repayment mechanism, and the burden for operating this would be on businesses. Tracking mechanisms are associated with huge costs and complexities, and without further detail it is hard to see how this burden will not mainly fall on UK businesses. This would present a significant risk to the competitiveness of British business, and could even deter smaller firms from importing and exporting.

This option would be subject to negotiations with the EU, which could prove challenging given the Government's recognition that this would be an *'innovative and unprecedented approach'*.

How to get involved

The CBI welcomes members' views on these proposals, which the CBI will raise with Philip Hammond, David Davis, and Greg Clark at the upcoming meetings of the European Exit Business Advisory Group (EEBAG). The CBI will also continue its ongoing work to develop constructive solutions for a new customs system, and will be feeding this into Government before the autumn.

Please email EUNegotiations@cbi.org.uk for further information on any of the above.