

The Customs Conundrum

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Here is a puzzle to entertain you whilst sitting on your holiday sun-lounger.

Design a customs regime governing the movement of goods between the UK and the EU post-Brexit that meets the following criteria:

- 1. It must allow for frictionless trade between the UK and the EU*
- 2. There must be no hard border between Ireland and Northern Ireland*
- 3. There must be no customs border between Northern Ireland and the rest of the UK.*
- 4. It must not involve the UK remaining within the Customs Union post-Brexit (even for a transitional period).*
- 5. The UK must be free to negotiate its own trade agreements.*

Extra marks will be given for flexible and imaginative solutions, but it must be possible to design, negotiate and introduce the new regime by March 2019.

The UK Government has published its first two attempts at solving this puzzle, and it would seem that there is still plenty of work to be done.

The first proposal - a “highly streamlined customs arrangement” - accepts the need for a UK-EU customs border but looks to use technology and cooperation to simplify the movement of goods between the UK and the EU. This solution relies heavily on new technology, and it seems rather

unlikely that, even with the full support of the EU, this could ever meet the desire for “frictionless” trade with the EU.

The second proposal - a “new customs partnership with the EU” - whilst expressed to be a solution that falls short of a customs union, looks suspiciously like one. It requires the UK to mirror the EU customs regime for imports that are ultimately to be consumed in the EU. This would require sophisticated technology to track the ultimate destination of goods, and rigorous enforcement to avoid abuse. One question is whether the EU would agree to this whilst allowing the UK to negotiate its own trade deals outside the EU.

In addition, neither solution seems to meet the two Irish requirements, nor indeed is it obvious how, in the absence of the Customs Union, it is going to be possible to avoid a hard border somewhere.

Both solutions also lose marks because, whilst they propose ending the Customs Union in March 2019, they also propose putting in place a new and time-limited customs union, which seems to look very much like the Customs Union, except that it would allow the UK to start negotiating new non-EU trade agreements.

Perhaps the most important message from this paper is the Government’s request for businesses to comment on how these two proposals might work in practice and to suggest other approaches that might meet the stated objectives. Is the technology available? How will enforcement “spot checks” slow processes down? And perhaps businesses should also be asking another question - is it really necessary or desirable for the UK to leave the Customs Union in March 2019 when it exits the EU?