

# Here's a customs union solution both Brexiteers and Remainers should be able to accept

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Two men dressed as customs officers take part in a protest outside Stormont against Brexit and its possible effect on the north and south Irish border CREDIT: CHARLES MCQUILLAN /GETTY

Trade deals have taken many forms over the years. Ancient ones included deals to allow trade in just one product or to allow just one narrow set of merchants to trade at all. Then there were deals where the tariffs imposed on certain imports were lower for some countries or some merchants than others.

Two important modern forms of deal are called “free trade agreements” and “customs unions”. In a free trade agreement (FTA) the countries agree not to impose tariffs on each other’s products and in modern FTAs there will be other provisions such as agreements on mutual recognition of regulations and on intellectual property rights. In a customs union the parties go further and agree to impose the same tariffs on those who are outside the agreement (e.g. if the UK and Brazil entered into a customs union, they would agree to impose the same tariffs on imports from China).

Before the modern international trade rules came in via the GATT and WTO, sometimes trade agreements would only cover a few products — they would be “partial”. So, for example, the EU-Turkey trade agreement of 1995 did not cover agricultural products. Under WTO rules, however, trade agreements must now cover “substantially all trade”. So, for example, the UK and EU could not make a trade agreement just for car parts.

Now suppose one believed that the UK and EU had done very well out of integrating their supply chains in some sectors, such as the automotive sector. Indeed, work done by myself and my colleagues at Europe Economics for the UK government in 2013 suggested that UK cars would be twice as expensive for UK consumers, had it not been for the Single Market. Other studies emphasize the large number of times automotive components cross borders between the UK and other parts of the EU, in the construction of vehicles, and the considerable additional cost there would be, even under a free trade agreement, if automotive manufacturers had to keep track of and report to the authorities exactly which car components went where. That might imply that, as the UK leaves the EU, there would be considerable advantages in keeping the UK in an automotive sector customs union, perhaps including some coordination of regulation of car parts.

A customs union that just covered cars and car parts would not be inconsistent with the UK doing trade deals with non-EU countries such as the US or Australia. There would merely need to be a carve-out in those deals for cars. But FTAs are allowed to

exclude a few specific products and often do so. Provided the deal was tightly enough stated that the EU could not use an automotive sector customs union agreement to restrict the UK's ability to do broader trade deals, an automotive-only customs union would have considerable merit. Indeed, during the EU Referendum I myself argued that, after we left, we would be likely to form a sectoral customs union with the EU in respect of cars and car parts.

An apparent problem, though, is that “substantially all trade” provision. Does that not mean that if we want to have a customs union with the EU in respect of cars and car parts, we need to have one covering all goods? Precisely this sort of thinking has been expressed by those urging we must stay in a customs union with the EU post-Brexit. Greg Clark recently warned of thousands of car sector jobs going. The House of Lords has amended the EU Withdrawal Bill to require the UK government to explore the formation of a customs union with the EU. The debate seems interminable.

Yet there is a much more straightforward way through here than most people seem yet to have seen. Although WTO rules would forbid the UK and EU from forming a trade deal that was solely a customs union in cars, there is nothing to prevent the UK and EU from doing a comprehensive free trade agreement that includes, nested within it, an agreement to coordinate third country tariffs on cars and automotive parts — i.e. to form an FTA with the EU that had, as part of it, a customs union covering just cars and car parts.

A very narrow UK-EU customs union of that sort, nested within a comprehensive FTA, should meet most of the objectives of the Lords and of the customs union rebels on the Conservative side in the Commons, allowing a compromise solution that was still fully compatible with the UK doing broad trade agreements with non-EU countries covering most of the main sectors (in particular, agriculture) that are politically important in achieving a deal.

We do not have to stay in the EU customs union or form a comprehensive customs union with the EU, denying Global Britain the chance to do new non-EU trade agreements, to have a customs union in the key automotive sector where it is most valuable. So let's not. Let's do a comprehensive FTA and nest a restricted cars and car parts customs union within it, instead.