



Is Labour selling the UK a Turkey?

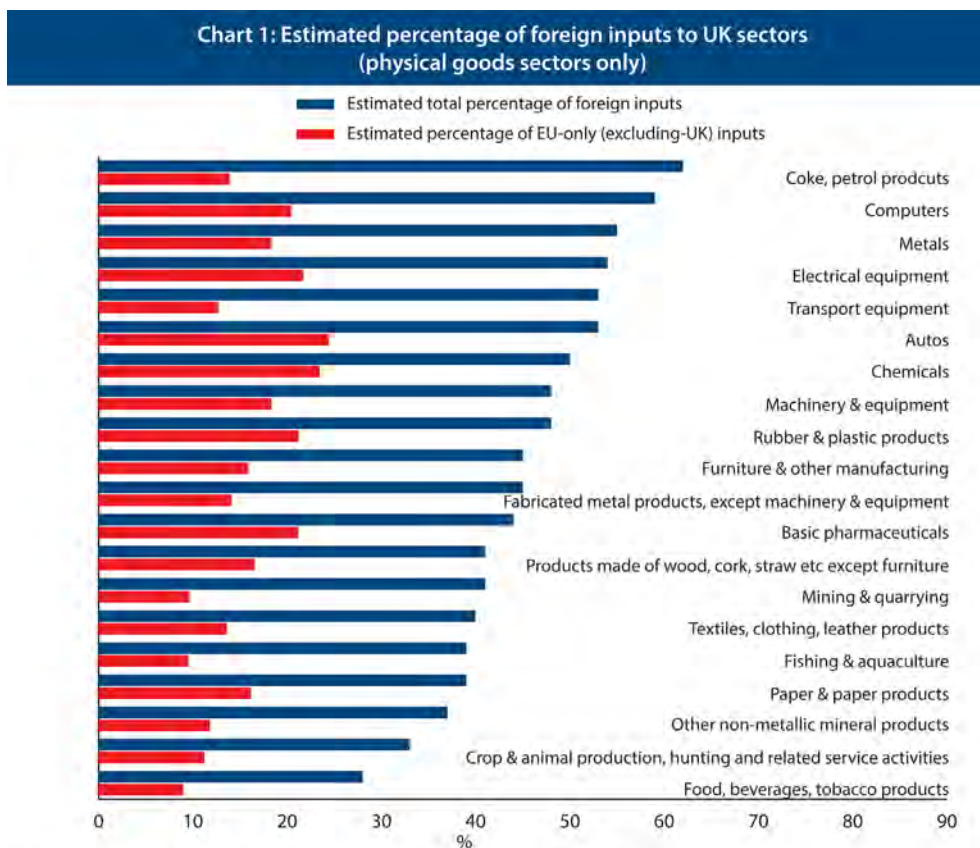
by Sam Lowe
12 April 2018

A future UK-EU customs union should not be ruled out. While it would place some constraints on a future UK independent trade policy, the positives far outweigh the negatives.

On February 26th 2018, Jeremy Corbyn, the leader of the Labour Party, [said that](#) “Labour would seek to negotiate a new comprehensive UK-EU customs union.” This stands in contrast to the UK government’s position, which categorically rules out a customs union. However, while Theresa May’s red lines have set the UK on a path that only leads in one direction – a free trade agreement (FTA) – it is not clear that there is a parliamentary majority in favour of forgoing an UK-EU customs union. Eight Tory MPs – enough votes to overturn the government’s working parliamentary majority, when combined with Labour and other opposition parties – have put their name to an [amendment](#) that would bind the government to “take all necessary steps” to stay in a customs union with the EU. Facing possible defeat, the government has delayed votes on urgent Brexit legislation.

There is no economic rationale for ruling out a UK-EU customs union. The UK is an intermediary manufacturer – one that imports to export (see Chart 1) – and the EU is, and will remain, the UK’s most important trading partner. Recently published internal analysis by the British government [finds](#) that a customs union exit would (assuming everything else remains the same) leave the UK economy, in the long-run, 1.1 per cent smaller than otherwise.

As well as Labour, business groups such as the [Confederation of British Industry](#) (CBI) and the [Institute of Directors](#) (IoD) are supportive of a UK-EU customs union (partial, in the IoD’s case).



Source: Absolute Strategy Research, calculations from World Input-Output Tables, 2016.

Furthermore, the EU is open to discussing the possibility of a customs union. While the existing European Council [guidelines](#) laying out the parameters of a future UK-EU agreement assume that the European Commission will be negotiating a free trade agreement, a clause allows the guidelines to be revisited if the UK's red lines shift. Behind the scenes many member-states are positive about the idea of a UK-EU customs union because it is popular with industry and reduces the need for new border infrastructure, in particular on the island of Ireland.

Critics have hit back, saying that remaining in a customs union with the EU would impair the UK's ability to strike post-Brexit trade deals. It would also, they argue, mean that new EU free trade agreements would require the UK to grant preferential access to a country's exports without receiving the same treatment in return. These criticisms have some merit, but are overstated.

Does being in a customs union prevent the UK signing new trade deals?

Despite the growing debate on the issue, it appears there is still a lack of understanding in the UK as to what constitutes a customs union. Indeed, many of the politicians expressing a strong opinion on the implications of a possible UK-EU customs union fail to [fully comprehend](#) the implications.

At its most reductive, a customs union is an international agreement whereby two countries or more, normally alongside removing all tariffs on goods traded between them, agree to apply the same tariffs on all goods imported from countries not party to the agreement. (Almost by definition, a customs union can only ever cover goods; tariffs are not directly levied on services imports.)

Around [16 customs unions](#), of varying levels of completeness, are in effect globally. Countries enter into customs unions with each other as a means of greater economic integration, and, specifically, to alleviate the costly burden posed by [rules of origin](#). This is of particular importance to the production of complex goods – such as cars – which are highly dependent on continental supply chains and see components criss-cross borders multiple times prior to the final product being sold to the end consumer.

A customs union is also a necessary, but not sufficient, step towards the removal of checks at the border between the countries involved. As such, it would help ensure an invisible border on the island of Ireland, an aim both the UK and the Irish government have committed to.

Yet being a in a customs union, and in particular one with the EU, would constrain the UK's ability to sign new trade agreements. From a macroeconomic perspective, this is of little relevance: even the government's own [analysis](#) find new FTAs will be of small benefit to the UK's economy, compared to the cost of Brexit. At most, new trade agreements with the US, China, India, the Gulf Co-operation Council, the Association of Southeast Asian Nations and the Trans-Pacific Partnership countries (including Australia, Japan and New Zealand) are cumulatively estimated to mitigate Brexit induced GDP losses of between 1.8 and 8 per cent by 0.7 per cent. However, the ability to sign new trade agreements is for many Brexiters a hugely important symbol of Brexit's success. It is therefore worth clarifying what constraints a potential EU-UK customs union would actually place on an independent UK trade policy.

While a UK-EU customs union would prevent the UK from independently lowering its import tariffs on goods (either unilaterally or as part of a FTA), the UK would still be required to negotiate its own market access for goods, and entirely free to negotiate new arrangements covering services, investment, data, government procurement and intellectual property. The UK could still play a prominent role in driving forward the plurilateral [Trade in Services Agreement](#) which aims to liberalise the worldwide trade in services such as financial services, telecommunications, and transport – an expressed desire of [Liam Fox](#) – for example. While not being able to offer concessions on goods may make it more difficult for the UK to negotiate new trade agreements, it would not prevent it from doing so.

If, as the IoD proposes, agriculture were carved out of a future UK-EU customs union, it would make signing new trade agreements easier still; unlike the majority of industrial goods, agricultural tariffs remain high and their removal is an [aggressive interest](#) for many potential future UK trading partners. Carving out agriculture would, however, make resolving the Irish border issue more difficult; as soon as one sector is carved out of a customs union it becomes necessary to differentiate at the border between those goods which are covered and those goods which are not.

It should also be noted that while advocates of leaving a customs union regularly [state](#) that remaining in one prevents us from unilaterally granting increased access to the world's poorest countries, the [49 least developed countries](#) already have tariff and quota free access for all products except weapons to the EU market. Additionally, many other developing countries have preferential access either under the terms of a [unilateral preference scheme](#) or an [economic partnership agreement](#).

While there would be need for an effective state-to-state dispute resolution mechanism – something currently missing from the EU-Turkey customs union, much to the EU's annoyance – there is no formal need for a European Court of Justice role if the UK forges a customs union with the EU.

Won't the UK just end up Turkeyed?

Turkey, currently in a partial customs union with the EU, has its own trade policy and is able to negotiate its own trade agreements.

However, there are two major complaints about the existing arrangement. One is that the Turkish government is not effectively consulted before the EU negotiates a new free trade agreement, despite the possible knock-on implications for Turkey. Second, although Turkey is required to open its market to the EU's FTA partners, sometimes these countries have refused to sign a reciprocal agreement with Turkey. Usually this is not a significant problem, but there are some notable examples of the EU's FTA partners dragging their feet when it comes to negotiating a deal with Turkey alongside their deal with the EU, for example Mexico and South Africa.

This asymmetry has been acknowledged by Labour. In his aforementioned speech, Corbyn said "we are also clear that the option of a new UK customs union with the EU would need to ensure the UK has a say in future trade deals."

While there will never be a situation where the EU would allow the UK, a non-member-state, to have a veto over EU trade policy, there is certainly reason to believe a UK customs union with the bloc would be better than Turkey's.

One possibility is a mechanism or committee by which the UK is substantively consulted prior to the EU entering into negotiations with third countries. There is already precedent for a non-EU member to be involved in the development and shaping of positions, minus a vote. For example, [Norway](#) is involved in the development of Schengen rules at the Council level, and has the right to speak in relevant discussions, although it has no vote.

The EU could use its best endeavour to ensure the UK is party to its future FTAs. While the UK would remain responsible for negotiating its own market access, both the EU and UK negotiators could sit on the same side of the table in some parts of the negotiations. Additionally, the EU would probably consider bringing any future trade agreements into force at the same time as the UK so as to maintain the integrity of a UK-EU customs union.

If this all sounds fanciful, it should be noted that the EU has already [proposed improvements](#), along these lines, for the EU-Turkey customs union. It would also have incentives to grant the UK a substantive consultation mechanism – the EU has more heft if the UK is on its team in future FTA talks (and vice versa).

The risk of the EU's future FTA partners refusing to enter into a reciprocal agreement with the UK cannot be ruled out entirely. But there are measures available to reduce the risk. And without drifting into the realms of British exceptionalism, the UK's international standing provides reason to assume that future FTA partners will think twice before treating the UK like Turkey.

A UK-EU customs union, while far from perfect, would be an improvement on Turkey's customs union and remains preferable to the alternative, which would seriously threaten the UK's position in pan-European manufacturing supply chains (with knock on impacts for [UK services providers](#)). It would

place some constraints on an independent UK trade policy, but from an economic perspective this is very much a price worth paying.

A customs union is only part of the solution when it comes to the future UK-EU relationship. Regulatory barriers to trade and issues relating to services, movement of people and more will still need to be addressed. However, as a starting point, Corbyn is right: a post-Brexit UK-EU customs union should be placed back on the negotiating table.

Sam Lowe is a researcher fellow at the Centre for European Reform.