

## Troubles of separation

The EU Customs Union is an association of countries and territories in Europe that applies uniform tariffs to imports and thus acts as a single trade area with no internal border checks. It accounts for approximately 16% of world trade, trading significantly with the United States, China, Russia and Switzerland. Customs Union member states cannot enter into independent trade deals with third parties.

As things stand, yes, so it can make trade deals with non-EU countries. How this exit will take place, and what will replace it, is unclear. The U.K.'s proposed approach was outlined in an August 15 government paper that suggests two possible approaches to a new customs arrangement.

First, a "highly streamlined" arrangement in which the U.K. and EU trade with each other as third parties but in a simplified regime that includes unilateral adjustments on the U.K.'s part; second, a new customs partnership with the EU, where the U.K. government has suggested the potential for setting standards and tariffs exactly in line with the EU, so goods destined for the EU market passing through the U.K. do not need to cross a customs border between the U.K. and EU. The British government, like the EU, does not want a hard border between the Republic of Ireland and Northern Ireland. In the absence of a customs union, it is not obvious how some form of border can be avoided, since the Republic of Ireland is a part of the EU Customs Union.

The government has proposed a temporary, "close association" with the EU after Brexit concludes until a new customs arrangement is in place to protect businesses in the EU and U.K. from experiencing a "cliff edge" on the day Brexit concludes.

The government's policy paper has been criticised for being vague. David Davis, the U.K.'s Brexit Secretary, has said the ambiguity is "constructive" in that it does not reveal Britain's hand entirely. Even within the government, consensus on the need for an interim agreement was hard to achieve. While the Labour Party spokesperson Keir Starmer used "fantastical and contradictory" to describe the plan, Labour shadow cabinet members have had different opinions on whether the Customs Union should be on the negotiating table.

The EU's Chief Negotiator, Michel Barnier, has reiterated the EU position that trade deals cannot be agreed until matters relating to the Irish border, the U.K.'s divorce bill with the EU and the rights of EU and U.K. citizens living across borders are settled.

Critics have also argued that a post-Brexit customs union with the EU that ends up being identical to the existing Customs Union obviates the need to leave it in the first place. Business lobbies have said they would like a one-step transition to minimise adjustments. The financial sector is keen on quickly reaching an agreement that includes services; 80% of the U.K.'s GDP is from the service sector.

The new U.S. Fed Chairman is unlikely to opt for policies that might upset the President's plan

END