

EMBARGOED UNTIL 0001 HOURS SUNDAY 21 JANUARY 2017

EVIDENCE NOT IDEOLOGY: WHY A CUSTOMS UNION IS BEST FOR BRITAIN - CBI

Time for flexibility on both sides

2018 must be the year of hard choices, based on evidence not ideology, Carolyn Fairbairn, Director-General of the CBI will say in a speech on Monday (22 Jan). We should consign Leave and Remain labels to history, she will add – “the overriding goal now is a good Brexit.”

Speaking at the University of Warwick, Carolyn will say time is running out and businesses urgently need decisions to protect UK jobs and growth. Clarity, flexibility and urgency are vital to get a “good Brexit for Britain”, requiring a fundamental change in approach.

Carolyn will call for a status quo, jobs-first transition deal to be nailed down in the next 70 days to remove the cliff edge for firms. A united UK view is needed by April - allowing talks to begin that month and unambiguous heads of terms agreed with the EU by October.

Urging rapid agreement on the shape of a new deal, Carolyn will say neither the Canada nor Norway models represent the best solution for business or for Britain.

The Canada model, she will say, “is an ocean away from what we need. We can’t afford higher barriers to trade, and nor can the EU.”

To achieve a good Brexit, she will say both sets of negotiators must revisit red lines, putting economics before politics to protect jobs and communities on both sides of the Channel.

In this spirit, Carolyn will propose that a comprehensive customs union between the UK and the EU should be on the table as a “practical, real-world answer” that goes a long way towards solving some of the complex issues, including the Irish border question, raised by the UK’s exit from the EU.

She will argue that a good customs union, built on lessons learnt from others, is best for jobs, wages and living standards after the transition period ends.

For the final deal, she will urge negotiators to adopt a simple principle – “start with the rules we already share, and move on from there. They have been 40 years in the making and support millions of jobs and communities across the UK and Europe.”

Carolyn will add that for many sectors of our economy, this approach could make all the difference.

She will conclude by stressing the urgency of the challenge. “Time is running out – by March next year our country will be out of the EU.

“Decisions must be taken fast, or firms will have no choice but to trigger their Plan Bs – more jobs and investment will leave our shores and future generations will pay the price.”

Introducing her speech, Carolyn will say:

“The global economy is booming and UK products and services are in demand the world over.

“We couldn’t be better placed to be international leaders in the industries of the future - from tech and life sciences to advanced manufacturing and education.

“Yet while UK businesses are optimistic, they are also deeply apprehensive.

“They’re not looking for a referendum re-run, but do need a good Brexit deal to keep investing and creating jobs - and speed matters.

“Firms warmly welcomed progress in December but January has brought a cold dose of reality.

“The EU is adamant the only options are existing models that don’t serve either side.

“The UK team can’t agree with itself, let alone with the EU.

“There’s too much ideology, too little urgency.

“It doesn’t have to be like this. If there’s one thing business does know, it’s negotiation. It’s about reaching deals that work for both sides, based on evidence.”

On the need for greater clarity for businesses, Carolyn will say:

“It’s about the UK being clear on what we want, the consequences if we get it wrong and the opportunities if we get it right.

“The current debate isn’t delivering clarity, it’s delivering contradiction and confusion’

“To move forward, we must consign the labels ‘Leave’ and ‘Remain’ to history.

“The overriding goal now is a good Brexit.

“This requires a profound change of approach: instead of ideology, we need facts and evidence to make the hard choices.

“Most people now agree a no deal scenario would be an act of great economic self-harm.

“It would increase costs on UK goods sold to the EU by between £4 billion - £6 billion per year and imported goods tariffs between £11 billion - £13 billion.

“The costs of regulatory red tape and border delay would be even greater.

“And there’s no doubt the EU would share this pain.”

On why the Canadian model isn't a good deal for the UK, Carolyn will say:

"A Canadian model delivers control over immigration, some regulation and trade policy.

"But it won't work for the UK, or the EU, as the Canadian deal was built around a premise of taking two countries wide apart - in geography, standards and trade – and bringing them closer together.

"Canada does less than 10% of its trade with the EU, whereas the EU is our largest trading partner. We can't afford higher barriers to trade. Nor can the EU.

"Currently, to trade with the EU, many UK businesses need only complete a simple form.

"But with a Canada-style agreement UK firms would face customs declarations, which means filling out a 12-page form for each batch of goods sent to customers.

"Every consignment will also need a VAT registration and certificates of origin, declaring how much of each product has been made where.

"The Canada-deal rules of origin are as long as *The Lion the Witch and the Wardrobe* – and a lot less fun to read.

"It's not just goods – the impact on services would be just as great. The Canada model is patchy on services, which make up 80% of the UK economy and 40% of our trade.

"Our world beating financial sector, creative industries and legal services would be hit hard.

"And it cuts both ways - 8000 European financial services firms would find their cross-Channel business disrupted or blocked.

"Put simply, a Canada deal is an ocean away from what we need.

"And the numbers bear that out – studies suggest it would hit our GDP between 2% and 5%.

"Some losses could be clawed back through third country trade deals, but not all of them.

"Only by focusing on evidence in this way can we achieve clarity about what's at stake: hundreds of thousands of jobs and complications for tens of thousands of firms, on both sides of the Channel."

On why the Norwegian model is better for business, yet presents challenges, Carolyn will say:

"The Norway model would give the UK great market access. Norway's businesses say it's worthwhile and that the country's politicians can influence EU rules.

“But the Norwegian model’s lower level of control is a problem. There’s the obligation to permit the four freedoms, and the substantial contribution Norway pays to EU countries.

“There are some business problems too, such as the delay in the transposition of EU rules.

“For example, a delay in applying rules on salmon sourcing meant trucks full of fish were stopped at the border.

“A copy and paste of Norway’s deal could create similar problems here, and in Antwerp, or Newry.

“So while a Norway deal would provide market access, the UK would need more control.”

On the need for greater flexibility from both sets of negotiators, Carolyn will say:

“If this was a hard-headed business negotiation these facts would prompt both sides to think again.

“It would be time for revisiting red lines and opening positions.

“That is precisely what needs to happen here, because, with flexibility, a solution that delivers a good measure of both access and control should be possible.

“One that strikes a balance for both the UK and the EU. A solution that’s neither Norwegian nor Canadian, but one focused on prosperity, reflecting the size of our economy and its value as a marketplace next-door to Europe.

“One that builds on 40 years of economic integration, rather than forgetting the past and starting from scratch.”

“Economics and prosperity must be put ahead of politics and red lines.”

On the right starting point for a successful outcome, Carolyn will say:

“On both sides of the Channel these kinds of solutions are already being sketched.

“In seeking the best final deal, I’d like to suggest that negotiators adopt one simple principle.

“And that is to start with rules we already share, and move on from there.

“They have been 40 years in the making and support millions of jobs and communities across the UK and Europe.

“For many sectors of our economy, this approach could make all the difference.

“Our aerospace, automotive and chemicals sectors, for instance, have highly integrated European supply chains.

“Each business in that supply chain benefits from consistent regulation - and most want to maintain it.

“We know future divergence might come at the expense of smooth access to EU markets for goods made according to new domestic rules.

“But if that is right for jobs, living standards and prosperity then that’s a choice to be made.

“The EU has already set useful precedents for creative solutions: Turkey; Ukraine; Switzerland, even Norway were all new models once.

“Of course, we’d need new ways to manage disagreement – perhaps a new independent court or joint committees to discuss rule changes.

“A flexible solution of this kind could preserve many benefits of barrier-free access to the single market while respecting the referendum call for more control - meeting the needs of business and politicians on both sides of the Channel.”

On the business case for a customs union with the EU, Carolyn will say:

“The idea behind a customs union is simple: a single set of tariffs for goods imported from outside the EU, enabling tariff free trade within it.

“It brings no obligations over freedom of movement, or payment and removes some of the heaviest trade barriers.

“Importantly, it would go a long way towards solving the border problem in Ireland.

“Some have suggested that the Irish border be kept seamless by establishing a customs border in the Irish sea - but that just moves the issue.

“The solution has been deferred - but it can’t be forever.

“We recognise this isn’t easy, and of course it’s worth looking at the alternatives.

“Yet unless and until we find one that works, a customs union is part of a practical, real-world answer.

“Of course, we’d need to negotiate a good customs deal, and learn from the lessons of others, but it’s the right ambition, with a strong business case to back it up.

“And it needn’t stop us keeping an eye on our global trade interests.

“There may come a day when the opportunity to fully set independent trade policies outweighs the value of a customs union with the EU.

“A day when investing time in fast-growing economies elsewhere eclipses the value of frictionless trade in Europe.

“But that day hasn’t yet arrived.

“Take the Trans-Pacific Partnership proposal.

“The 11 countries in the Trans-Pacific Partnership account for only 7% of our trade, while Germany alone accounts for 11%, and for the EU 43%.

“Remaining a member of a customs union for as long as it serves us to do so is consistent with the result of the referendum, and would be good for EU firms too.”

Concluding her speech, Carolyn will stress the need for urgency:

“Time is running out – by March next year our country will be out of the EU.

“We need to end this game of who-blinks-first and instead find a new spirit of urgency.

“Firms of all sizes need a clear timetable of decisions this year.

- A jobs-first transition deal agreed, in writing within 70 days, by the end of March
- A united UK view from government by April, with trade talks beginning that month
- And Heads of Terms on the outline final deal signed with the EU by October.

“Then time is up.

“Decisions must be taken fast, or firms will have no choice but to trigger their Plan Bs. More jobs and investment will leave our shores and future generations will pay the price.”

21 January 2018

Notes to Editors:

Across the UK, the CBI speaks on behalf of 190,000 businesses of all sizes and sectors. The CBI’s corporate members together employ nearly 7 million people, about one third of private sector-employees. With offices in the UK as well as representation in Brussels, Washington, Beijing and Delhi, the CBI communicates the British business voice around the world.

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