

UK looks for ways to keep free trade with EU post Brexit

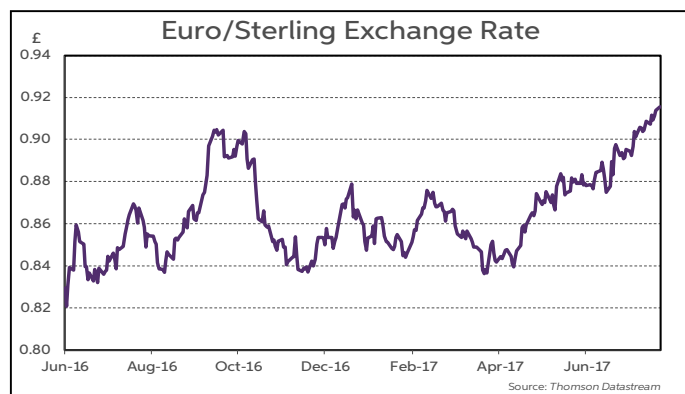
The British Government has begun to publish position papers on various issues relating to Brexit. The position papers are designed to flesh out British thinking on Brexit and its approach in the negotiations with the EU. **Two of the papers, relating to future customs arrangements with the EU and Northern Ireland and its border, are of major importance to Ireland.**

The negotiations started at the end of June and are seen as having made little progress to date, largely owing to a lack of clarity on the British side. It is hoped that the position papers will add some impetus to the talks. However, **there has been much comment that they represent wishful thinking and contain unworkable proposals.** They could be viewed as the UK's opening position in the negotiations on the various issues surrounding Brexit. They **may also be an attempt to alter the timeline for the negotiations** set out by the EU, which envisages three stages to the talks that must be carried out in a set order.

The EU is insistent that the **first stage** of the negotiations must deal with removing uncertainty created by the UK's decision to leave the EU, in relation to citizens rights, UK's financial liabilities and the Northern Ireland border. When sufficient progress is made on these issues, the negotiations can move on to **stage two**, covering the outlines of a new partnership between the EU and the UK. A key part of this partnership will be a free-trade agreement. If the broad outlines of a deal can be agreed, the EU has indicated that the talks can move to **stage three**. This covers the transitional arrangements that would need to be put in place in the period between when the UK leaves the EU in March 2019 and a full trade deal is agreed.

The UK is anxious for the negotiations to move as quickly as possible past stage one and on to stages two and three, that deal with trade and a transition period. The British tactic of linking the Irish border question with future customs and trade arrangements is seen by many as a ploy to move the talks quickly on to stages two and three.

The UK's decision to leave the EU Customs Union when it exits the EU in March 2019 is greatly **complicating the Brexit process.** The UK government has put forward some proposals to limit the negative impact of this on trade.



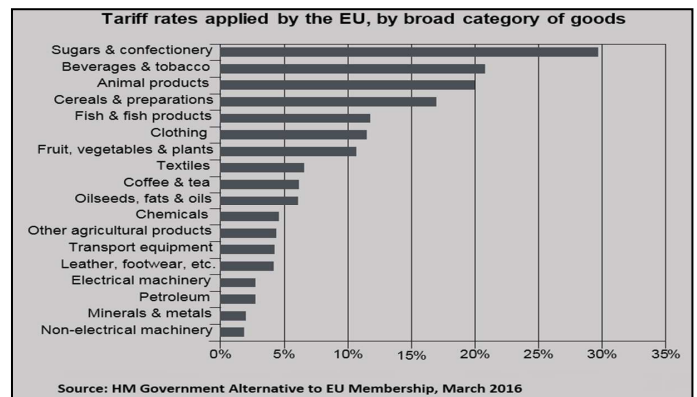
Somewhat ironically, the UK has indicated that when it leaves the EU Customs Union, it wants to form a **new UK-EU Customs Union for a limited time-period during the transition period following Brexit.**

Beyond that, the **UK has suggested that it could operate a customs regime that aligns precisely with the EU's regime for goods entering the UK that are destined for the EU.** It would in effect collect customs duties on behalf of the EU on these goods. It says this would remove the need for the UK and the EU to introduce customs processes for trade in goods between them, while still allowing the UK to apply its own tariffs on imports for the UK market. This sounds **fine in theory but would prove difficult in practice** as many UK imports are components used in further manufacturing. It would be hard to tell for many imports, which are destined for the UK market and which are going to the EU. The UK suggests there could be a 'tracking mechanism' for imported goods in supply chains, but this sounds both cumbersome and costly.

Customs controls a major issue

The UK has also made some suggestions on **how to avoid a hard border and Customs posts between Northern Ireland and the Republic**, should Customs controls have to be introduced between the UK and EU. It argues that **small traders**, which account for over 80% of all cross-border trade, should be **exempted from any customs controls** as this is local trade and cannot be properly categorised as international trade. Larger traders would be classified as **‘trusted traders’**, who would be allowed to avail of **simplified customs procedures** with reduced declaration requirements. The UK says these measures would avoid the need for any physical customs border infrastructure.

However, it is hard to see why other EU countries with land borders and local trade with non-member states would agree to this. Indeed, they may seek similar derogations for trade with neighbouring non-EU states. It would offer a **back door entry for goods into the EU** with out paying customs and risk undermining the integrity of the Single Market. This is particularly true of trade in agricultural products, which tend to attract a high level of EU tariffs and also have to meet stringent EU quality standards.



Customs arrangements have emerged as likely to be the **most difficult issue to resolve if a hard Brexit is to be avoided** and there is to be continuing relatively free trade without barriers between the UK and EU post Brexit. However, by leaving the EU Customs Union, the UK is making this very difficult to achieve. The **UK wants to retain all the benefits of free trade with the EU after its departure, while at the same time being able to negotiate free trade deals with non-EU countries**, offering them different tariff arrangements to the EU- the so-called ‘having your cake and eating it’ approach.

Politically, it is difficult to see how this would be acceptable to the EU. Michel Barnier, the EU’s Chief Negotiator on Brexit, has clearly stated that by making the choice to leave the EU and Customs Union, **“the UK will naturally find itself in a less favourable position than that of a Member State”**. He also warned that the **post-Brexit trade arrangements “cannot be the equivalent of what exists today”**. The EU will also not allow the integrity of the Single Market to be comprised by a lack of border controls.

This is why **some commentators have characterised the British approach to the EU talks as ‘delusional’**, while also saying their proposals are both unrealistic and unworkable. **Financial markets too seem less than impressed and are growing increasingly concerned** at the slow pace of the negotiations to date and that **the UK approach is increasing the likelihood of a hard Brexit**, with the introduction of Customs controls involving tariff and non-tariff barriers to trade.

Sterling has lost ground against the dollar recently, but it has come under most pressure against the euro. It has risen to around the 91.5p level from 84p as recently as last May. **There is now speculation that difficulties in the Brexit negotiations could see the euro rise to 94-95p**, with some forecasters talking about the euro reaching parity in the event that a hard Brexit looks increasingly likely.

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