

1.2 TRADE: HOW IT WORKS TODAY

The way we do trade today is strongly shaped by our membership of the European Union (EU). This will continue until we leave the EU, which is expected to be in 2019. Two of the EU's building blocks are particularly important:

- the **Single Market** shapes how we trade with countries within the EU
- the **Customs Union** shapes how we trade with countries outside the EU

This paper introduces the Single Market and the Customs Union. If you managed to read the briefing that we sent you before the Assembly meeting, you will find some of the content is the same.

THE SINGLE MARKET

The Single Market aims to allow economic activity to take place across the EU without any barriers.

All EU members are part of the Single Market. Norway, Iceland and Liechtenstein are also part of the Single Market, even though they are not EU members.

The Single Market covers four aspects of economic activity: goods, services, labour (that is, people), and capital (that is, money). The basic principle is that goods, services, labour, and capital should be able to move freely from one member state to another. For example, if goods can be sold in one member state, it should be possible to sell them in any other member state on the same terms. If a company can provide a service in one member state, it should be able to provide it in all member states. A person who is entitled to work in one member state should be allowed to work in all.

In practice, the Single Market is not 'complete', as there are still some restrictions that prevent completely free trade. These relate particularly to services. For example, there are rules that require providers of some services to be licensed separately in each country they want to do business in.

To achieve free movement of goods and services, countries in the Single Market can't impose tariffs on one another. The Single Market also aims to reduce non-tariff barriers to trade. It does this in two ways:

- **Harmonisation.** Members agree to have shared rules for things like workers' rights, product standards, packaging, and environmental standards. All Single Market members have to follow the rules. This limits the freedom of the UK to decide its own rules on these matters.
- **Mutual recognition.** The other way is that members agree to accept each other's rules. For example, a person needs to pass professional qualifications to provide services such as nursing or accounting. In some of these, qualifications in one member state are accepted in others too.

The Single Market's rules are decided by EU members. Up until now, the UK has therefore played a role in deciding them. After it leaves the EU it won't. Where there is disagreement about whether the rules have been broken, the European Court of Justice reviews what has happened and makes a decision.

THE CUSTOMS UNION

The Customs Union sets the rules on how countries inside the Customs Union trade with countries outside.

All EU members are part of the Customs Union. Turkey is a partial member, even though it is not in the EU.

The EU, through the Customs Union, does three main things:

- It sets the level of tariffs that all Customs Union members charge on imports from outside the Customs Union. It has decided that there should be no tariffs on some imports, including many electrical products. Other imports face low tariffs: for example, the tariff on many raw materials is 1–3 per cent of the cost. Yet others have high tariffs, such as 30 per cent on clothes and shoes, and 50 per cent or more on some kinds of food.
- It negotiates free trade deals with countries outside the EU. These deals reduce or eliminate the tariffs that the EU charges from those countries, and vice versa. In some cases, deals go further and reduce non-tariff barriers too. The EU has done trade deals with around 50 countries, including Canada, Mexico, and South Korea.
- It makes it possible for goods that are imported from outside the Customs Union to go through customs controls only once. For example, goods that land in the UK from outside the Customs Union are checked and tariffs are paid in the UK. They can then move freely to any other country in the Customs Union without further checks and payments.

Being part of the Customs Union means that goods can cross the border between the UK and other Customs Union countries very easily – there is no need for customs checks. It also allows the UK to benefit from the trade deals that the EU does around the world. Some think the EU can negotiate better deals than the UK could do on its own, as it is bigger and therefore has more clout.

However, many people are concerned that being in the Customs Union makes trade with countries outside the EU harder. Some think the UK should impose lower tariffs – or no tariffs at all – on imports from outside the EU. The Customs Union stops the UK from making its own trade deals with non-EU countries. Some think the UK could negotiate faster, better deals on its own.

'WTO RULES'

The UK is currently a member not just of the EU, but also of the World Trade Organization (WTO). The WTO includes most countries around the world. It agrees rules for global trade.

The WTO's most important rule is the so-called 'most favoured nation' rule. This says that each WTO member must charge the same tariffs on imports from all other WTO members – it can't charge higher tariffs on imports from one country and lower tariffs on imports from another country. There are only a few exceptions to this – the main one being where countries negotiate a special trade deal.

This means that the EU Customs Union has to charge the same tariffs on imports from, say, Japan as from, say, Brazil. Tariffs can be lower only where the EU has done a trade deal with a country. This rule could become important after Brexit. If the UK does no trade deal with the EU, the 'most favoured nation' rule will apply. So the UK will have to charge the same tariffs on imports from the EU as on imports from outside the EU. The EU will have to do the same for imports from the UK.