

Policy Factsheet

# The Costs of a Customs Union Brexit Deal



Claire Elliot  
April 2019

## About Scotianomics

In the 21st century data is everywhere but it is the analysis that transforms data into valuable, actionable knowledge that is key to success.

Organisations, both in Scotland's private and public sectors, lack access to useful, reliable data and value-added analysis of the kind that most advanced countries take for granted. This creates a hidden but real disadvantage for Scottish business, limits public policy and disrupts the pursuit of shared prosperity.

Scotianomics aims to spark a knowledge revolution and inform the decision-makers on Scotland's economy. We provide cutting-edge intelligence and strategic planning resources so that stakeholders can gain a wide view of the threats and opportunities in the world through our geopolitical, economic and policy analysis, unique historical datasets, risk and opportunity forecasts, Geographic Information System mapping solutions and strategic planning services.

Gordon MacIntyre-Kemp

Director

## Introduction

It is widely believed that Theresa May and Jeremy Corbyn are close to reaching a Customs Union compromise that will allow Brexit to pass through Parliament. This is despite overwhelming evidence that any type of Brexit will cause more damage to Scotland's economy than other parts of the UK. Below we outline some of the key implications of a Customs Union deal for Scotland, drawn from leading think-tanks, the UK Government's own research into the consequences of a Customs Union arrangement, and our own analysis of the deal.

## Key Implications

Eastern Scotland will be the most adversely affected region in the UK by a customs union deal – by 2029 the region will have lost 3.7% of GDP. This is 1% higher than in outer London.

By 2029 a customs union Brexit will have cost Scotland £5.9bn.

Scotland's unemployment rate will increase by about 1.3% under a customs union arrangement, which as a percentage of Scotland's working age population in 2018 is equivalent to 47,000 jobs.

The cost of non-tariff barriers, such as regulations, rules of origin and quotas, will outweigh the benefits of being in a customs union: costing the UK 5.1% of GDP in the long run.

A customs union without being a part of the single market will increase border friction and the costs of trade.

A customs union will reduce investment by around 18% UK-wide compared with staying in the EU. Given that Scotland is the second highest winner of FDI projects in the UK, it can be expected to have a higher than average impact on Scotland.

A customs union exacerbates demographic challenges. No EU immigration after Brexit would mean a 3% fall in Scotland's working age population by 2041 and a 7% decline in the number of children.

Scotland is receiving over £5.3bn in EU funding between 2014-2020, with Brexit Scotland would lose the next round of funding with no guaranteed replacement by the UK government.

A customs union deal means UK average real wages will fall by 6% over the long run.

As part of the customs union, the UK will be obliged to follow EU rule changes while not having a vote on those changes or lose the benefits of a customs union.