

European Economy



Our topics 1-7:

1. **Customs Union**
2. **Trade Defense Measures**
3. **Enterprise Policy**
4. **Competition and State Aid Policy**
5. **Common Agricultural Policy**
6. **Monetary Union**
7. **EU Cohesion Policy**

EU Customs Union

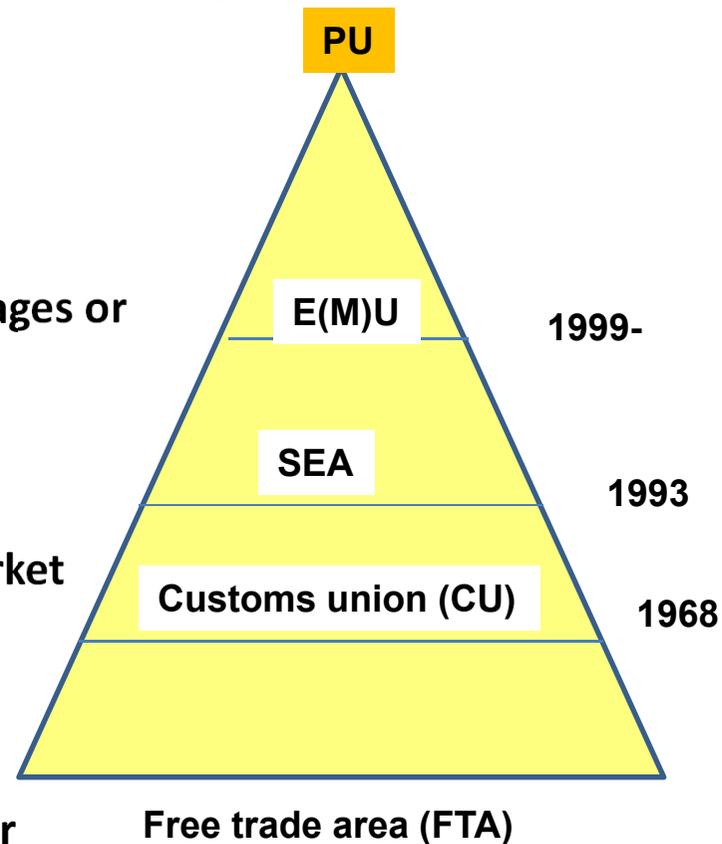
1. Customs union as a first stage in the European integration process
2. Common Customs Tariff of the EU
3. Autonomous preferential customs arrangements
4. Main conventional preferential customs arrangements
5. EU Single Customs Territory

On item 1.

The integration process has the following stages or phases:

- Free trade area (FTA)
- Customs union (CU)
- Single economic area (SEA) or Single market
- Economic (and monetary) union (E(M)U)
- Political union (PU)

❖ A free trade area is an area without duties in the trade between the FTA Member States.



Examples:

- **European Free Trade Agreement (EFTA)**
- **Central European Free Trade Agreement (CEFTA)**
- **North American Free Trade Agreement (NAFTA)**
- **ASEAN Free Trade Area**
- **Greater Arab Free Trade Area, etc.**

❖ **A custom union is a FTA + Common Customs Tariff.**

Examples except the EU:

- **Southern Common market (Mercosur)**
- **Customs union EU-Turkey (R)**
- **Andean Community**
- **Customs Union of Belarus, Kazakhstan and Russia**
- **Southern African Customs Union, etc**

FTAs and CUs are to be registered in the WTO as Regional Trade Agreements.

http://www.wto.org/english/tratop_e/region_e/rta_pta_e.htm

a) Determining the initial EEC common rates of duties (weighted average)

$$t_i^{cu} = \frac{\sum t_{ik} n_{ik}}{\sum n_{ik}}$$

where **t** means “rate of duty”

n means “value of imports”

cu means “customs union”

i means “tariff item of the imported goods”

k means “EU Member State” (or BeNeLux)

As a base for calculations were used the amounts of the individual rates of duties on the 1.1.1957 in the four customs territories of Germany, France, Italy and the Customs Union of Belgium, the Netherlands and Luxembourg (BeNeLux).

Let us calculate the initial common EEC rate of duty on the goods “I” (see the table).

On the 1.1.1957 the individual rates of duties on the same goods were as follows (%): in Germany – 30, in France – 20, in BeNeLux – 10, and in Italy – 15. The value of imported goods (\$) in 1958 was: in Germany – 2 million; in France – 1.5 million, in BeNeLux – 0.5 million, and in Italy - 1 million.

b) Chronology

First stage 1. 01.1958 – 31.12.1961

About one third of the duty rates were unified, another one third were partly harmonized and the rest remained individual rates

Custom territory	Duty	Imports (\$)	Charges (\$)
1	2	3	4 = 2 x 3
A – Germany	0.30	2000000	600000
B - France	0.20	1500000	300000
C - BeNeLux	0.10	500000	50000
D - Italy	0.15	1000000	150000
EEC (A - D)	0.22	5000000	1100000

The weighted average of the common duty in the case indicated in the table above is 0.22 or 22%, but EEC decided to introduce duties below the weighted average in order to stimulate the WTO multinational negotiations.

That for the common duty in this case should be not more than 21%.

Second stage 1.01.1962 – 31.12.1965

Two thirds of the duty rates were unified and the rest partly harmonized.

Third stage 1.01.1966 – 31.12.1969

At the end of this stage, all duty rates had to be unified and published as the EEC Common Customs Tariff. **It happened earlier than it was planned - on 1.07.1968**

c) Structure of the CCT

The EU Common Customs Tariff includes the following elements:

Combined Nomenclature (CN).

- **Created by Council Regulation in 1987. It was established to meet simultaneously the requirements both of the Common Customs Tariff and of the external trade statistics. It is based on the World Customs Organization “Harmonized System” (HS).**
- **Each CN subheading has an eight digit code number: (a) the first six digits are the code numbers relating to the headings and subheadings of the HS; (b) the seventh and eighth digits identify the CN subheadings. Member States may insert additional subdivisions for statistical purposes.**

Every year the European Commission adopts the current CN subheadings. Respectively the Member States may adopt their own new additional subdivisions for statistical purposes.

it must be remembered that the combined nomenclature is determined by the Commission, but the uniform duties are determined by the Council of the EU.

Example:

Section I “Live animals; animal products”

First digit is “0”

Chapter 01 “Live animals”

HS Heading 0102 “Live bovine animals”

HS Subheading 0102 10 “Pure-bred breeding animals”

CN Subheading 0102 10 30 “Cows”

II Non-legislative acts

REGULATIONS

* Commission Implementing Regulation (EU) No 1101/2014 of 16 October 2014 amending Annex I to Council Regulation (EEC) No 2658/87 on the tariff and statistical nomenclature and on the Common Customs Tariff

□ Schedule of customs duties

a) The EU Common Customs Tariff comprises **general** and **preferential** rates of duties

General rates of duties are those which are applied to the imported goods from all WTO (GATT) member states (about 150 countries) and other countries outside WTO if the EU has signed with them a trade agreement for the application of the so-called Most-favoured-nation (MFN) or a non-discriminatory arrangement. Such countries outside the WTO are the Russian Federation, Vietnam, Belarus, etc.

Generally bilateral, in the late 19th and early 20th century, the MFN clauses were gradually imposed on the Asian nations (China, etc.) by the more powerful Western countries (Opium war). After WWI the multilateral negotiations made from the MFN arrangement the usual customs arrangement.

B. General rules concerning duties

1. The customs duties applicable to imported goods originating in countries which are Contracting Parties to the General Agreement on Tariffs and Trade or with which the European Community has concluded agreements containing the most-favoured-nation tariff clause shall be the conventional duties shown in column 3 of the schedule of duties. Unless the context requires otherwise, these conventional duties are applicable to goods, other than those referred to above, imported from any third country.

Preferential rates of duties are autonomous or conventional. Autonomous are arrangements introduced through a EU unilateral decision (autonomous measures) and conventional are those which are introduced through international treaties (conventions), signed by EU.

Currently they are three EU Autonomous preferential customs arrangements:

- EU Generalized Scheme of Tariff Preferences (GSP),**
- The arrangement for the Western Balkans (6 countries, including Kosovo)**
- The treatment of EU Overseas Countries and Territories (33 countries and territories).**

A) Generalized Scheme of (Tariff) Preferences – (GSP)

It applies to **developing countries that do not benefit from some more favorable arrangement**. Preferences are **asymmetric**. This means that developing countries are not obliged to provide the same concessions to the EU. EU GSP is similar to the GSP applied by the USA, Japan and other developed countries. Russia applies also a GSP. Bulgaria applied its own GPS until its accession to the EU.

GSP are based on a decision of the **United Nations Conference on Trade and Development - UNCTAD**, adopted in 1968. This decision recommends duty reductions for the imports in the developed countries of goods from the developing countries in order to improve the market positions of the developing countries, especially in the trade with industrial goods.

GSP is recognized by GATT in 1971 by adopting the so-called **Enabling clause**. It is included also in the new GATT '94 Agreement as an exertion from the MFN treatment. **The first EU GSP preferential schedule was introduced in 1971** through a ECC Council regulation. **Preferences are autonomous because the EU has the unilateral right to define the amount of preference, and to withdraw them temporary or permanently.**

They are 3 specific arrangements in the EU GSP:

- (a) a general arrangement;
- (b) a special incentive arrangement for sustainable development and good governance (GSP+); and
- (c) a special arrangement for the least-developed countries (Everything But Arms (EBA)).

A) General GPS Arrangement

It applies to 36 developing countries that do not use the better treatment of the special arrangement (Everything But Arms scheme or GPS+ scheme)

For most of the countries apply some limitations in the imports of sensitive goods (foods, textiles, shoes, chemicals). Most limitations apply for the imports of Chinese goods – including machinery, transport equipment, chemical products, optical instruments and others.

In industrial goods the preferential arrangement means often a zero duty rate, but in agricultural goods preferences are much smaller and expressed in the so-called tariff quotas offering reduced duty rates but only for a limited import volume.

B) Special initiative arrangement for sustainable development and good governance - GSP+

It applies to about 35 developing countries.

B) Special initiative arrangement for sustainable development and good governance - GSP+

The countries meeting the vulnerability criteria, as defined in Annex VII of Regulation

Countries	Share of total GSP imports (<2.0%)
Pakistan	1.6%
Ukraine	1.4%
Sri Lanka	0.8%
Philippines	0.8%
Ecuador	0.5%
Peru	0.4%
Iran	0.4%
Costa Rica	0.4%
Nigeria	0.2%
Syrian Arab Republic	0.1%
Guatemala	0.1%
Honduras	0.1%
Georgia	0.1%
Uzbekistan	0.1%
Armenia	<0.1%
Panama	<0.1%
El Salvador	<0.1%
Nicaragua	<0.1%
Azerbaijan	<0.1%
Turkmenistan	<0.1%
Republic of Congo	<0.1%
Bolivia	<0.1%
Maldives	<0.1%
Cape Verde	<0.1%
Paraguay	<0.1%
Tajikistan	<0.1%

5

Mongolia	<0.1%
Marshall Islands	<0.1%
Iraq	<0.1%
Kyrgyzstan	<0.1%
Cook Islands	<0.1%
Tonga	<0.1%
Micronesia (Federated States of)	<0.1%
Nauru	<0.1%
Niue	<0.1%

The main advantage in using this special arrangement are the zero duty rates for some additional sensitive goods, mainly agricultural products, chemical products and textile products.

The main requirement for using this preferential arrangement is to sign and ratify 27 international conventions related to sustainable development in three directions:

- **Social relations** (mainly ILO conventions),
- **Environment** (Montreal Protocol on Substances that Deplete the Ozone Layer; Convention on International Trade in Endangered Species of Wild Fauna and Flora; Convention on Biological Diversity; Kyoto Protocol to the United Nations Framework Convention on Climate Change, etc.)
- **Good governance** (United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances; United Nations Convention against Corruption, etc.)

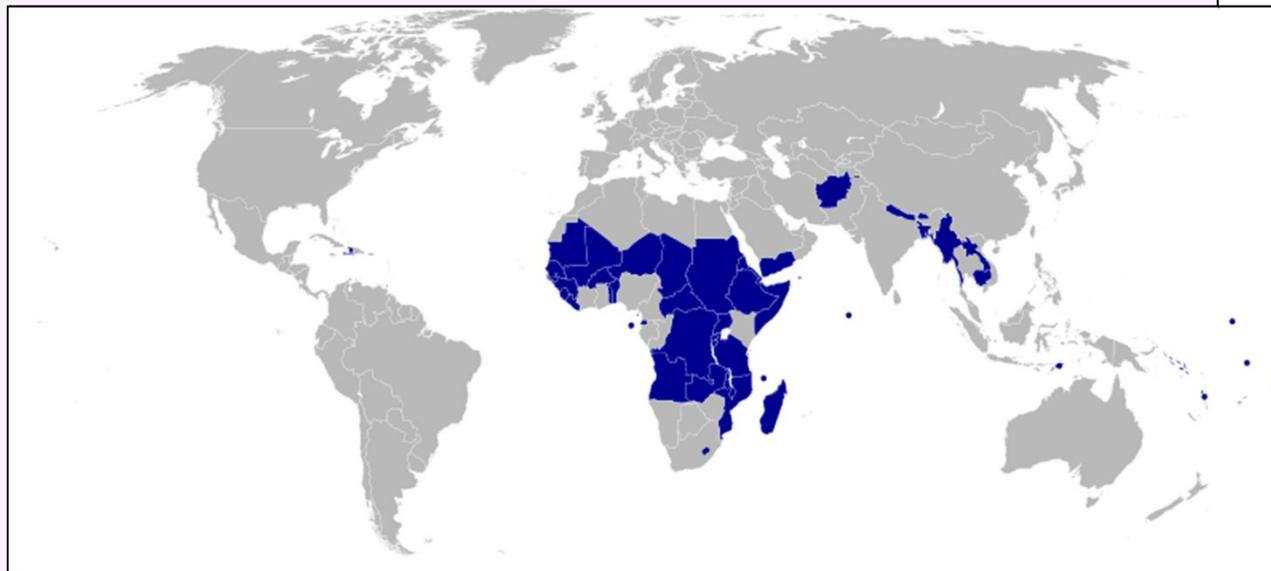
C) Everything But Arms scheme

Provides zero duties for almost all goods with the exception of weapons and ammunition and some agricultural goods: bananas, rice, sugar.

Least developed countries are defined by UNCTAD. Beneficiaries are 48 countries, most of them in Tropical Africa and Southern Asia.

Criteria: three-year average GNI per capita of less than US \$905 (about US \$2.5 per day).

EU is the only developed economy granting such special customs arrangement to the Least developed countries.



Important: almost all of them are at the same time ACP countries.

4. Main conventional preferential customs arrangements

Type of Arrangement	Industrial goods	Agricultural goods	Free movement by services
European Economic Area (Norway, Iceland, Lichtenstein) and Switzerland	Zero duty rates	Tariff quotas	Yes
Customs union: Turkey, Andorra, San Marino	Zero duty rates	Tariff quotas	No
FTA in force: Chilli, Mexico, Peru, South Africa, South Korea, some ACP countries, some West Balkan countries, some Mediterranean countries, etc.	Zero duty rates	Tariff quotas	No (Exception – Mexico in some services)
FTA in negotiations or in ratification process: USA, Japan, India, MERCOSUR (Brazil, Argentina, Uruguay and Paraguay), CARIFORUM (15 Carrabin countries), ACP Countries, Mediterranean countries, etc.	Preferential arrangements	Tariff quotas	No
ACP countries without a FTA agreement with the EU (Cotonou Agreement)	Zero duty rates for the imports from the ACP countries (exception are some sensitive goods)	Tariff quotas more favorable as the general GSP arrangement	No

ACP Countries

- ✓ The Cotonou Agreement in 2000 marks the start of a fundamentally new stage in EU – ACP relations.
- ✓ ACP countries are 79 countries:
 - 48 in Tropical Africa (Africa south of Sahara)
 - 16 in Caribbean
 - 15 in Pacific

Now the ACP countries are divided in 7

Regional integration groupings:

Caribbean Group

Pacific Group

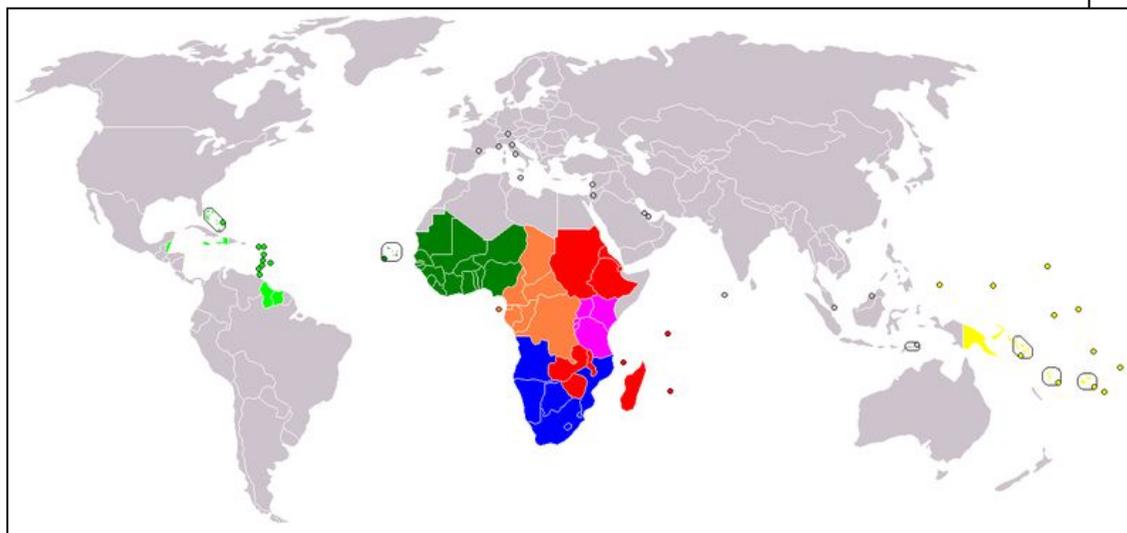
West African Group (ECOWAS)

East Africa Group (EAC)

Central African Group (CEMAC)

East and South Africa Group (COMESA)

Southern African group (SADC)



The EU strongly supports the regional integration in Africa including free trade among African states.

Very important is the Program “Aid for Trade.”

5. EU Single Customs Territory (SCT)

Council Regulation (EEC) No 2913/92 of 12 October 1992 established the Community Customs Code to be applied from 1 January 1994. Commission Regulation (EEC) No 2454/93 of 2 July 1993 laid down the provisions for the implementation of the rules related to Community Customs Code. These two documents created the legal basis for the functioning of the EU Single Customs Territory.

Q: Why was the EU SCT established so late, about 25 years after the adoption of the EU (EEC) Common Customs Tariff?

A: Because a precondition for the SCT was the creation of the single Internal Market and the abolition of the EU internal borders (and border customs) as a part of the new integration phase – the Free Economic Area.

Presentations (next time)

- ❖ **European Free Trade Agreement (EFTA)**
- ❖ **Central European Free Trade Agreement (CEFTA)**
- ❖ **EU – Turkey Customs Union and Trade Relations**
- ❖ **NAFTA**
- ❖ **ECOWAS**
- ❖ **Mercosur**