

COMMISSION OF THE EUROPEAN COMMUNITIES

Information Directorate-Générale

B-1040 BRUSSELS
Rue de la Loi 200
Tel. 35 00 40

Subscription: ext. 5120
Inquiries: ext. 2590
Telex COMEURBRU 21877

INFORMATION

CUSTOMS UNION

CUSTOMS UNION

154/77

The customs union between the "old" and "new" members of the Community comes into force on 1 July 1977.

This does not mean that any dramatic change will be noticeable at frontiers between the Member States - it is after all the culmination of a five-year process - but for all that 1 July will be a red-letter day.

The economic unification of Europe is going to take a long time : customs union is only a beginning, the foundation on which a united Europe will be built.

One of the main goals of the founding fathers was to create an immense economic and political arena, a vast internal market which goods, capital, ideas and people could move as freely as they do within the boundaries of a modern state.

The expression "Common Market" appears right at the beginning of the Treaty of Rome, as early as Article 2. It was felt to be so apt a description of the whole European venture that it has become the popular name for the Community. A little further on, in Article 9 to be precise, we read that a "customs union" is one of the presequisites for the "Common Market".

WHAT IS A CUSTOMS UNION ?

A customs union is an arrangement whereby two or more countries agree to do away with customs barriers between themselves and apply a common tariff to countries outside the union so that the level of protection will be the same wherever a product enters the union. A customs union is often compared to a free trade area ; the difference between the two is that although a free trade area has no internal barriers either members are free to follow an independent customs policy and apply their own tariffs vis-à-vis non-members. One important consequence is that in a customs union the principle of free movement applies even to goods from non-member countries once they have entered the territory of the union i.e. once the duty chargeable under the common customs tariff has been paid ; in a free trade area however the principle of free movement applies solely to goods originating in member countries.

More precisely, a customs union entails :

- the introduction of a common customs tariff applicable at the external frontiers of the union ;

X/346/77

- the adoption and application of common customs legislation ;
- the abolition of customs duties and charges having equivalent effect together with all restrictions affecting trade between members of the union, in short the substitution of a single customs area for the separate customs territories of the members ;
- the "pooling" of customs revenue.

There are therefore two facets to customs union : the external (i.e. the erection of a tariff wall around the area to create a new entity) and the internal (i.e. the dismantling of customs barriers between members).

THE COMMON CUSTOMS TARIFF

In 1958, when the Treaty of Rome came into force, there were considerable differences between the customs tariffs of the Member States : generally speaking French and Italian customs duties were higher than the others. Article 19 of the Treaty specified that the duties of the common customs tariff, would be fixed at the arithmetical average of national duties then applied. Amalgamation of the different national tariffs produced something in the region of 20.000 tariff headings : and an arithmetical average had to be calculated for each one. Determined streamlining led to the common customs tariff (CCT) adopted by the Council in February 1960 being whittled down to some 3.000 headings. Initially the average duty was about 11 %, appreciably lower than that applied by other trading powers such as the United States or Japan, duties ranging between 12 and 20 % for the bulk of industrial goods.

The CCT was applied in full by the six original Member States on 1 July 1968, replacing their separate national tariffs. For the three new Member States, this change-over takes place on 1 July 1977. The CCT nomenclature, now swollen to 3.700 headings, also serves as the basis for the Nomenclature for External Trade Statistics (known as Nimexe), an expanded version with some 6.500 headings.

One point to note is that national administration are no longer free to waive the CCT unilaterally. Any amendments to the CCT must pass through the Council, and any customs negotiations with non-member countries must be conducted by the Commission on behalf of the Community in line with instructions given by the Council.

ABOLITION OF CUSTOMS BARRIERS

The ultimate goal of customs union is the abolition of all customs formalities within the Community to allow of the fullest possible interpenetration of national markets and insure that people and goods can move as freely as they now do within the individual Member States.

Article 13 and 14 of the Treaty of Rome therefore required customs duties and charges having equivalent effect to be abolished gradually during the transitional period, i.e. by the end of December 1969.

As it turned out the economic climate at that time was so favourable that the transitional period was shortened to end of 1 July 1968. On that date free movement of goods became a reality with the abolition of intra-Community

tariff barriers.

To smooth the transition duties between Member States were to be abolished in stages. Because things were going so well, the Council decided on two occasions - in May 1960 and May 1962 - to speed up the process thereby, as we have seen, shortening the transitional period. The same process has been repeated to integrate the three new members into the Community system, customs barriers between the "old" and the "new" Member States falling on 1 July for manufactured goods.

One instrument of customs policy available to national administrations prior to 1 January 1962 was the quota, a widely used method of restricting imports; imports of a given category of goods could be permitted up to a specified level ; there after imports were bound. Similar restrictions existed for exports. Both have now been done away with in trade between Member States.

NON TARIFF BARRIERS

The customs union between the original Six was completed on 1 July 1968. This will be extended to the three new members on 1 July of this year. On that date customs barriers between the Nine will disappear ; they will form a single customs area, import quotas will be a thing of the past and a tariff wall - the common customs tariff - will afford protection from non-members.

This does not mean however that all the problems associated with free movement of goods will be solved. Even with the original Six it rapidly became apparent that customs barriers were only the tip of the iceberg; below the surface lay countless non-tariff barriers to trade, the new form of protectionism.

These take the form of rules and regulations, generally applying to domestic and foreign goods alike, which have the effect of blocking or hindering imports or making them less competitive. The ostensible aim of such rules and regulations is normally an admirable one - consumer, protection, safety, standardization, pollution control - but the real aim is the protection of national industries. The creation of a genuine internal market depends on their repeal and the Commission is already implementing a programme designed to eliminate all non-tariff barriers to trade.

THE EFFECTS OF CUSTOMS UNION

Customs union is the cornerstone of the internal market ; without it there could be no common market.

Although it is by no means perfect - the Commission still has a long way to go in its fight against the various obstacles to trade - the effects of customs union are already making themselves felt. They are not always easy to quantify since they are often indirect. But some are pretty obvious. In the first place, the disappearance of barriers has given a salutary shock to businessmen in a number of countries, particularly those coddled by a protectionist tradition and reluctant to venture into export markets. Customs union has forced them to change their ways : to modernise management techniques, seek new markets, and generally face up to the bracing effects of competition.

The same process has led to a wider choice for consumers in a great many fields.

At the same time intra-community trade has multiplied. It is too early yet to say what impact customs union will have on the economies of the Three; but for the Six intra-community trade increased sevenfold between 1958 and 1971, while trade with the rest of the world merely tripled.

Customs union is also of crucial importance as the mainstay of the Community's common policies and a stimulus to further integration.

THE MAINSTAY OF COMMON POLICIES

In the first place customs union is vital to the Community's identity. It allows the Community to speak with a single voice in negotiations (the GATT talks, for example) covering relations with non-member countries and international trade.

The common agricultural policy, based as it is on a system of import levies and export refunds, is in essence nothing more than the customs union applied to agriculture with the variations need to regulate a complicated sector.

Moreover, since the vital Council Decision of 21 April 1970 phasing out national contributions plus substituting "own resources" the customs union has had a central role in the process of European integration. Customs duties and agricultural levies form the backbone of "own resources"; they will be supplemented in the near future by a fixed proportion (1% maximum) of Member States' VAT revenue.

A STIMULUS TO INTEGRATION

As we have seen, customs union has settled only a small proportion of the problems inherent in the free movement of goods, "the tip of the iceberg". In so doing however it has performed the useful function of revealing the existence of the mass below the surface, spotlighting the difficulties arising from disparate tax policies (harmonization of VAT) monetary disunity (the vexed question of compensatory amounts in agriculture) and dissimilarities in company law and export aid systems. Customs union has demonstrated the need for further common policies, for instance industrial and economic policies, not expressly mentioned in the Treaty of Rome.

Customs union, then, has proved its worth not only by dismantling customs barriers but also by highlighting the shortcomings of the present system, forcing the Community to remedy the situation by moving into areas where the spirit rather than the letter of the Treaty must be its guide.

WHY DO WE STILL HAVE CUSTOMS POSTS ?

A community citizen crossing the frontier between one Community country and another must often stop and ask himself :"Why do we still have customs posts and customs officers ? We're in the Common Market, aren't we ? Wasn't it supposed to have done away with customs barriers ? Isn't that what customs union is all about ? Checks at external frontiers are one thing - but checks inside the Community are something else again !" What the public forgets is that a custom officer does much more than collect customs duties. He is, and has always been the frontier representative of a number of public services. He has to collect indirect taxes on goods entering the country (VAT and excise duty, for instance), deal with compensatory amounts under the CAP,

compile the statistics which are vital to the modern economy, and see to it that the various plant and animal health are carried out. All of these operations will continue to be necessary, even at internal frontiers, until national legislation has been completely harmonized.

As things now stand it is essential for Member States to be in a position to levy indirect taxes within their own frontiers. With different VAT rates, no country will accept a deflection of trade towards a partner with lower rates. To take a single example, VAT on cars is 33 % in France, 25 % in Belgium and 11 % in Germany. Until such time as a single rate is introduced neither the French nor the Belgian Inland Revenue can be expected to sit back and watch an important source of revenue slip through their fingers ; on the contrary, they act on the principle that a citizen's tax liability depends on his domicile or place of business.

A certain amount of control is obviously needed in the field through there is no reason why it should be exercised at frontiers , or by customs officers.

A similar situation exists in the United States for instance but control there are more flexible and are not carried out at interstate boundaries, which in any event no longer exist as frontiers.

It is time that relations between the Nine have been streamlined in many ways; but there is room for a further relaxation of controls by extending cooperation between national administrations to minimize frontier formalities. This is one of the Commission's ambitions.

On the whole it seems not unreasonable to suppose that the whole problem of frontier checks and controls could be solved introducing a system of administrative surveillance analogous to that already applied to national trade.

In conclusion, it may be said that even if a genuine internal market has yet to come, things are much easier now than they were in 1958 for Community nationals travelling by road or rail. Today, customs formalities at the Community's internal frontiers have been reduced to the bare minimum.
