Małgorzata Czermińska
ORCID: 0000-0002-6935-1031
Krakowska Akademia
im. Andrzeja Frycza Modrzewskiego

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Tariff Safeguard Measures of the European Union Internal Market – The Role of Common Customs Tariff

Abstract

The principal and traditional instruments for protecting the internal market of the European Union (EU) are customs duties and the Common Customs Tariff. The customs tariff integrates the nomenclature (a detailed list of goods) and the applicable rates of duty on the basis of which customs duties are calculated and applied in respect of specific types of goods on their import into the European Union. The Common Customs Tariff of the EU is used not only as the basis for the calculation of duties, but also for collecting data on the statistics of external trade, determining products subject to exciseduties, products entitled to a reduced rate of VAT, defining origin rules etc. The main goal of this paper is to demonstrate the role served by tariff measures – and in particular, the common customs tariff – in the protection of the European Union's internal market. The specific aim is to verify the research hypothesis that the importance of customs duties as an instrument used to protect the EU's internal market is decreasing.The very structure and types of customs duties contained in that structure were presented, with special attention being directed to their rates depending on the groups of goods and to trends of their changes over time. Furthermore, the amount of customs revenue and its share in the EU's general budget in the past two decades was discussed. An analysis was conducted to examine the rates and types of and changes in customs duties in the EU customs tariff, which confirmed the research hypothesis that customs duty rates generally no longer play any prominent role in the protection of the internal market. Throughout more than twenty years, they have showed a downward trend, as from the mid-1990s (an average applied customs duty rate has dropped by 9 per cent, whereas an import-weighted average duty declined by more than four times). The zero customs duty (MFN) rate applies to nearly 26% of all tariff lines, and what is even more, the most of goods (30% of all tariff lines) are subject to low customs duty rates, fixed at 0% to 5%, inclusive. Nevertheless, as regards certain goods, mainly agricultural products (dairy produce, sugar and confectionery, cereals), but also textiles, clothing, cars, customs duties are still considered a barrier to access to the EU market.

Key words: common trade policy; Common Customs Tariff; tariff rate; most favoured nation clause.

Środki ochrony taryf dla rynku wewnętrznego Unii Europejskiej – rola wspólnej taryfy celnej

Abstrakt

Zasadniczym i tradycyjnym instrumentem ochrony wspólnego rynku Unii Europejskiej (UE) pozostają cła i wspólna taryfa celna. Taryfa celna łączy nomenklaturę celną (szczegółowa lista towarów) ze stosowanymi stawkami celnymi, w oparciu o które oblicza się cło należne w imporcie do Unii Europejskiej. Taryfa celna jest wykorzystywana ponadto do gromadzenia danych statystycznych w handlu zewnętrznym UE. Głównym celem opracowania jest ukazanie roli jaką odgrywają środki taryfowe, a w szczególności wspólna taryfa celna, w ochronie rynku wewnętrznego Unii Europejskiej. Celem szczegółowym jest weryfikacja hipotezy badawczej mówiącej o malejącej roli ceł i wspólnej taryfy celnej dla ochrony wspólnego rynku UE. Przeprowadzona analiza wysokości, rodzajów i zmian stawek celnych w unijnej taryfie celnej potwierdziła postawioną hipotezę badawczą, że stawki celne generalnie nie odgrywają już głównej roli w ochronie rynku wewnętrznego. W ciągu ponad dwudziestu lat wykazywały tendencję malejącą, począwszy od połowy lat 90. XX wieku (średnia stosowana stawka celna zmalała o 9 pkt. procentowych, a średnia ważona importem zmalała ponad czterokrotnie). Prawie 26% wszystkich linii taryfowych jest objętych zerową stawką celną (KNU), ponadto najwięcej towarów (30% wszystkich linii taryfowych) jest objętych niskimi cłami, z przedziału od 0% do 5% włącznie. Niemniej jednak w odniesieniu do niektórych towarów, głównie rolnych (wyroby mleczarskie, cukier i słodycze, zboża), ale też tekstyliów, odzieży, pojazdów samochodowych cła stanowią nadal barierę w dostępie do rynku unijnego.

Słowa kluczowe: wspólna polityka handlowa; wspólna taryfa celna; stawka celna; klauzula najwyższego uprzywilejowania.

JEL: E44, E60, E66.

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Introduction

The common trade policy of the European Union (EU) provides a number of measures that can be classified according to various criteria. The Union Customs Code differentiates between tariff and non-tariff instruments. The first group comprises instruments used to protect the market of the European Union such as the EU customs tariff and customs duties and liberalisation instruments such as autonomous tariff measures, including tariff quotas and duty suspensions. The group of non-tariff measures includes contingency protection measures (defence instruments), namely safeguard measures against unfair (dumping, subsidy) and increased import, quotas, technical barriers to trade (TBT). As far as safeguard measures for the internal market (employed in the case of import) are concerned, these can be categorised into permanent protection instruments (customs duties) and contingency (temporary) protection instruments (temporary trade barriers, TTBs) (see: (Bown, 2011, p. 2).

The principal and traditional instruments for protecting the internal market of the European Union are customs duties and the Common Customs Tariff (CCT). Literature on the subject provides plenty of works devoted to non-tariff measures, methods applied to quantify them and the effects of their liberalisation (Bora, 2005); their economic importance for trade flows (e.g. Bratt, 2014; Bao, & Qiu, 2012; Beghin, Disdier, Marette, & Tongeren, 2012; USTIC, 2008; USITC, 2009; Ferrantino, 2006; Andriamananjara, Dean, Feinberg, Ferrantino, Ludema, Tsigas, 2004).

On the other hand, there are relatively few up-to-date and in-depth publications dedicated exclusively to tariff instruments, particularly in the context of the role which they play as instruments of national market protection and a source of budget revenues.Therefore, the main goal of this work is to demonstrate the role served by tariff measures – and in particular, the common customs tariff – in the protection of the European Union's internal market. The very structure and types of customs duties contained in that structure were presented, with special attention being directed to their rates depending on the groups of goods and to trends of their changes over time. Furthermore, the amount of customs revenue and its share in the EU's general budget in the past two decades was discussed. The specific aim is to verify the research hypothesis that the importance of customs duties as an instrument used to protect the EU's internal market is decreasing. An analytical and descriptive method has been employed for this study. For the purpose of the analysis, various sources were used, such as domestic and foreign literature, legal acts of the EU secondary legislation in the form of regulations, statistical data of the Eurostat, the World Trade Organization and the World Bank.

Structure of the Common Customs Tariff

The principal instruments for protecting the internal market of the European Union are customs duties and the Common Customs Tariff (CCT). The Common Customs Tariff was introduced for the first time on the 1st of July 1968 by virtue of the Regulation of the Council of Ministers and this date is considered to be the beginning of the customs union of the European Economic Community (EEC). In consecutive years, customs rates were changed many times (a new version of the customs tariff is imposed every year), both autonomously and as a result of further General Agreement of Tariff and Trade (GATT) negotiations. After the Common Customs Tariff had entered into force, the responsibility for the trade policy (changing customs rates, adopting trade policy measures), which originally had been within the capacity of Member States, was transferred to the Council and the European Commission. As a consequence of forming the customs union as part of the European Community, barriers in the intra-community trade in goods were lifted, however, border control at internal customs borders was maintained. Only on the 1st of January 1993, upon establishing the common market, the control was removed (Czermińska, 2016, p. 42).

The structure of every customs tariff is based on nomenclature of goods, that is a systematised list of goods. For such nomenclature, it is essential that goods intended for trade are classified, which means that a transparent and unambiguous system allowing for identification of a given commodity through assigning a specific digital code must be established. The CCT uses Combined Nomenclature (CN), which was introduced by the Regulation No. 2658/87 and has been applied for the EU tariff since the 1st of January 1988 (Council Regulation…, 1987). The Combined Nomenclature is of a dynamic nature, since necessary changes are made therein, e.g. from the technological progress perspective, it is needed to register certain groups of goods. Changes in the CN result also from the volume of international trade, if it is small – some codes may be "closed". As a consequence, the number of tariff lines decreased: from more than 10,300 at the beginning of this century to 9,414 lines at the eight-digit level in 2016 (Table 1). These changes do not exert, however, any direct financial effects, but what is more relevant is the level of customs rates which reflect both the level of protection and customs revenues. Customs duties in the European Union have not only a financial dimension, they generate revenues for the general budget of the EU (in which they

represent so-called traditional own resources, TOR[1]), but also a protective and economic one, expressed through the level of customs protection.

Currently, the Common Customs Tariff includes only one column of customs rates, and these are so-called conventional rates. They apply to import from third countries which receive special treatment under the Most Favoured Nation (MFN) clause, being both members and non-members of the World Trade Organization (WTO), however, in the second case, the EU accords the MFN status to the states on a reciprocal basis.The EU employs a wide range of tariffs to protect its domestic industries with many of these tariffs applying to agricultural products. Under WTO agreements these tariffs are "bound" at maximum levels (bound duties), although countries may choose to set tariffs at lower rates than these bound maximums – applied MFN tariff rate. It means all countries importing to a country pay the same tariff rates unless they have a preferential trade agreement e.g. a free trade agreement or customs union (Bungay, 2012, p. 10). In practice, the European Union adopts a highly complex system of customs preferences, hence the conventional rates of customs duties apply mainly in the case of import from developed countries which have not been given any preferences thus far, i.e. the USA, Australia, New Zealand, Japan, Hong Kong, Singapore, Taiwan.

Table 1. Structure of MFN tariffs in Common Customs Tariff, 2004, 2008, 2014, 2016

Specification	Number of tariff lines – MFN rate (%)							
	2004		2008		2014		2016	
All tariff lines	10,174	100%	9,699	100%	9,379	100%	9,414	100%
Bound tariff lines (% on all tariff lines)	–	100%	–	100%	–	100%	–	100%
Duty free lines	2,734	26.9%	2,451	25.3%	2,356	25.1%	26.0%	2,359
Ad valorem	9,167	90.1%	8,720	89.9%	8,382	89.4%	8,416	89,4%
Non-ad valorem, including:	1,007	9.9%	979	10.1%	997	10.6%	10.6%	1,008
Specific	642	6.3%	629	6.5%	651	6.9%	6.9%	662
Compound	199	2.0	215	2.2%	199	2.1%	2.1%	201
Alternate	76	0.7	74	0.7%	64	0.7%	0.7%	62
Other*	90	0.9	61	0.7%	83	0.9%	0.9%	83

*Other includes Agricultural Components (EA), Additional Duties for Sugar (AD S/Z), Flour (AD F/M) and Entry Prices (EP).

Source: own estimates based on: (WTO, 2017, p. 49; WTO, 2015, p. 42; WTO, 2009, p. 40; WTO, 2006, p. 43; WTO, 2004, p. 40).

[1] TOR comprise customs duties and sugar levies.

Table 2. Structure of MFN tariff rates in the CCT, 2016

Specification	Number of lines	Tariff range (%)	Share of duty free lines (%)	Standard deviation*	Share of non ADV tariffs (%)
Total	9,414	0-695.5	26.1	12.1	10.6
HS 01-24	2,456	0-695.5	15.3	21.7	38.3
HS 25-97	6,958	0-35.6	30.0	3.7	0.8
WTO agricultural products**	2,075	0-695.5	19.1	23.7	46.4
including *inter alia*:					
Animals and products thereof	351	0-132.5	15.1	21.3	68.7
Dairy products	151	2.8-695.5	0.0	65.0	100.0
Fruit, vegetables, and plants	508	0-169.5	11.8	13.9	16.9
Coffee, tea, and cocoa and cocoa preparations	47	0-18.7	14.9	6.7	51.1
Oilsseeds, fats, oil and their products	174	0-103.5	35.6	11.9	6.9
Cereals and preparations	230	0-76.9	8.7	12.0	80.0
Sugars and confectionary	44	0-172.7	4.5	37.5	88.6
Beverages, spirits and tobacco	305	0-76.8	18.0	15.9	55.4
WTO non-agricultural products***	7,339	0-26	28.1	4.4	0.5
including *inter alia*:					
Fish and fishery products	500	0-26	8.0	6.5	0.0
Minerals and metals	1,447	0-12.0	50.6	2.6	0.7
Chemicals and photographic supplies	1,248	0-17.3	25.1	2.7	0.3
Textiles	850	0-12	1.9	2.4	0.1
Clothing	341	6.3-12	0.0	1.3	0.0
Leather, rubber, footwear and travel goods	264	0-17.0	21.6	4.7	0.0
Non-electric machinery	882	0-9.7	23.1	1.4	0.0
Electric machinery	447	0-14.0	24.8	2.8	0.0
Transport equipment	253	0-22.0	11.9	5.0	0.0
Petroleum	49	0-4.7	38.8	2.0	0.0
By stage of processing					
First stage of processing (6.8%****)	1,194	1-168.7	43.6	10.4	13.2
Semi-processed products (4.9%****)	2,771	0-172.7	31.5	7.4	3.8
Fully processed product (7.1%****)	5,449	0-695.5	19.6	14.2	13.5

*Overall standard deviation of applied rates.
**In the annex of the WTO agreement on agriculture, agricultural products are defined as those that are found in Chapters 1 – 24 HS, do not include fish and fish products.
*** Non-agricultural goods do not include petroleum and petroleum products.
****The brackets contain an average customs rate (simple average).

Source: (WTO, 2017, p. 49-50).

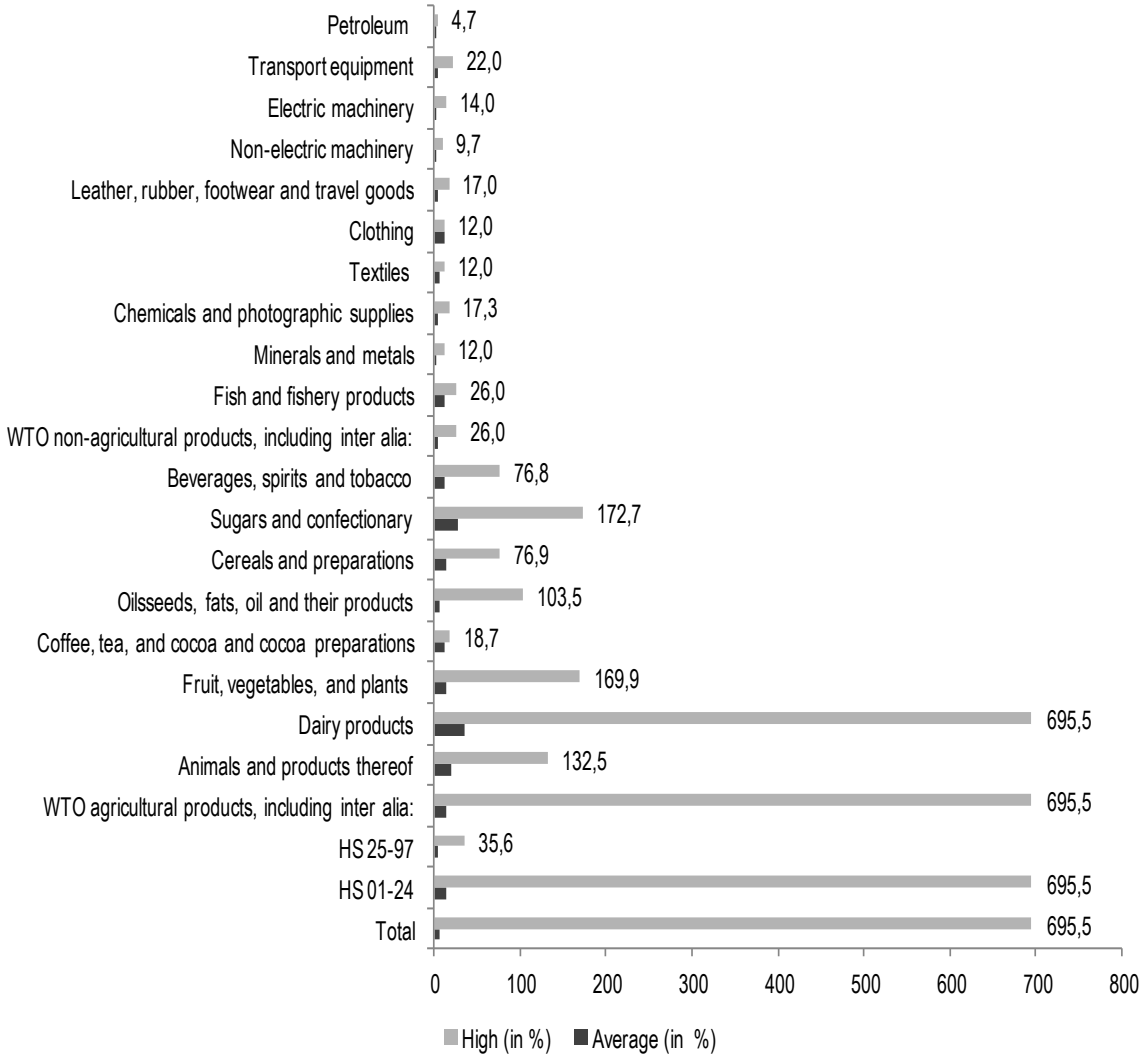

Figure 1. High and average tariff rate MFN in the CCT, 2016

Source: author's calculations, based on (WTO, 2017, pp. 49-50).

Basic features of the common customs tariff (Table 1, Table 2, Figure 1):

1. A dominant position of *ad valorem* rates (ADV) in the EU customs tariff has been observed for many years; these rates are calculated on the customs value of goods and account for nearly 90% of all tariff lines, whereas the other rates, i.e. non-*ad valorem* rates (NAV) represent 10%-11%, out of which almost 7% refers to *ad spetiem* duties and approx. 2% – to compound and alternate duties (Table 1)[2]. What is particularly noticeable is the advantage

[2]Ad valorem duty (adv, of value) – a duty rate that is calculated as a percentage of the customs value of the goods when they reach the importing country. Specific tariff – fixed amount of money per physical unit of the imported product**.** Compound tariff – combination of specific and ad valorem tariffs. Alternate duty – when a higher or lower rate of duty, as the case may be, is applied, which depends on whether a lower (minimum) or upper (maximum) limit has been determined. Ad valorem customs rates have several advantages. It is easy to compare them in multilateral commercial negotiations, they automatically take into account any increase and drop in prices, are in line with the rule of fairness (more expensive goods, which are of higher quality, are subject to heavier

of *ad valorem* duties for non-agricultural goods (HS sections 25-97 – 99.2% of all tariff lines), and in the case of agricultural goods, specific duties and compound duties (HS sections 1-24 – 38.3% of all tariff lines, are widely applied (Table 1). The specific duties in the CCT, are generally based on the weight of imported goods, with higher impact on relatively heavy and cheap goods than on expensive and light weight products within the same line.

2. A key feature of multilateral liberalisation within the framework of the Uruguay Round was introducing tariff bindings, which reduce the extent and variability of the protection level in import. During the Uruguay Round (1984-1994), the coverage of tariff bindings was expanded, with the coverage of bindings on agricultural commodities increasing to almost 100 per cent of relevant tariff lines[3].While tariff bindings allow tariff rates to vary below the level of the binding, they reduce both the average applied tariff and the variability of the applied rate of protection (Francois & Martin, 2004). The same concerns the Common Customs Tariff, in which all tariff lines are now bound (Table 1), yet customs duties imposed on agricultural products (according to WTO's definition) have been, generally, bound at a high level, except for very few products to which bound customs duties amounting nearly to a zero rate apply (oil seeds, soya beans, see: Pelkmans, 2006). The CCT would guarantee predictability and stability in trade: importers would be able to make long term plans with the confidence that the tariff would remain the same.
3. Tariff peaks for non-agricultural products are not high. With respect to the group of goods in question, the highest (ADV) MFN customs rates in 2016 were charged for motor vehicles (22%) and fish (depending on a species, 22%-26%; which was – as a matter of fact – similar to the previous years). Agrofood tariff rates can be extremely high. As for the group of agricultural products, the highest customs duties were observed in 2016 and they concerned dairy products (Table 2, Figure 1). Regarding this group of goods, a standard deviation was also at the highest level, which means that customs rates are widely dispersed around the mean (the lower standard deviation, the closer to the mean customs rates are).In particular, the heaviest customs duties were applied in the case of whey and modified whey (695%), poultry (132.5%), prepared or preserved mushrooms (169.5%). All the customs rates that

duties). As for the shortcomings of these rates, in the case of a drop in the prices of goods imported, such duties no longer have a safeguard function, therefore many customs duties on agricultural products are specific or compound duties. If a slump in import prices occurs, specific customs rates ensure a proper protection, since they depend only on the quantity of goods imported, and not on their prices (see: Lux, 2004, p. 108 to find out more).

[3]See, *inter alia*: (Hoeckman & Kostecki, 2002) for more information about decisions made during the Uruguay Round.

are higher than 100%, as well as average protection above 30%, can be observed exclusively in the group of agricultural goods – meat, dairy products, cereals, cocoa (duty on cocoa beans is zero per cent), sugar (Table 2; for details, see: Commission Implementing Regulation… (2016)).

4. The CCT shows mixed escalation[4], negative from the first stage of processing (average tariff rate of 6.3%) to semi-processed goods (average rate of 4.9%), and then positive between semi- and fully processed products (tariffs averaging 7.1%) (Table 2). Further disaggregation of the tariff at ISIC (Revision 2) two-digit level depicts mixed escalation in, *inter alia*, wood, paper, chemical, and basic metal industries; and positive in food (including beverages and tobacco), textiles (including wearing apparel and leather), non-metallic products (excluding petroleum and coal), and fabricated metal products, (including machinery and equipment) industries (WTO, 2004, p. 41).

Furthermore

In the case of some agricultural products (fruit and vegetables grown in the temperate zone), additional safeguard instruments are used. Fresh fruit and vegetables delivered to the EU are subject to *ad valorem* import duty in the amount of 10%-20%. However, owing to lower production costs in third countries, the European Union – pursuant to the provisions set out in the Agreement on Agriculture – has the right to employ special safeguard measures for import. Regarding fresh fruit and vegetables (28 tariff lines at a level of 8-digit CN code), the so-called entry price system (EPS) is deployed, which was implemented in 1995 (it replaced the reference price system (RPS), applied before) and entails collecting customs levies calculated as the sum of *ad valorem* duty and extra specific duty (a so-called tariff equivalent) imposed when an import price is lower than an entry price. Import at a price equal to or higher than an entry price is subject only to *ad valorem* duty. A tariff equivalent (that is the amount of additional customs levy) is calculated in proportion to the quantity of goods imported. The rate of tariff equivalent is proportional to the difference between an entry price and a price of a commodity imported. If an import price of a commodity is lower than an entry price by 0-2%, 2-4%, 4-6% or 6-8%, the tariff equivalent for these ranges amounts to: 2%, 4%, 6% or 8% of the value of an entry price respectively. In the case where the value of an imported commodity is lower than 92% of its entry price, apart from *ad valorem* duty, also a so-called maximum tariff equivalent is applied, which is usually very high (Commission Regulation …, 1994, p. 66). Furthermore, the EU customs tariff comprises also seasonal customs rates

[4] Tariff escalation means an increase in customs rates with a higher degree of processing of a product.

applicable to specific agricultural products during harvest seasons in Member States – when such rates are higher throughout these periods and are aimed at protecting the interest of Community manufacturers. Such a situation is the reason why import prices depend on sale prices in the EU, which makes the seasonal protection even greater.

Evolution and Significance of EU Customs Tariff of EU Customs Tariff for Protection of the EU's Internal Market

Customs protection in the EU, manifested through the level of customs rates in the common customs tariff (simple mean MFN), has been showing a downward trend over the years; it is also characterised by clear sectoral diversification. A mean MFN rate for all goods has been relatively low throughout the years, indicating a downward trend, which results from customs reduction under the General Agreement on Tariffs and Trade (GATT). In 1995, it was equal to approx. 9%, while in 2016 – approx. 4%, that is two times lower[5]. By comparison, a simple average MFN rate in the USA's customs tariff was lower – and it amounted to 3.4% (5.3% for agricultural and 3.1% for non-agricultural products); in Japan, it was higher – 4.0% (13.3% and 2.5% respectively); very high customs duty is imposed in South Korea – 13.7% (56.9% and 6.8% respectively) (WTO 2019). The second half of the 1990s was an exception, when customs rates, both the average and applied ones, rose considerably (own estimates, based on World Bank, 2018). This was a result of the tarification of non-customs barriers to import of agricultural goods and the conversion of other trade instruments – *inter alia*, changeable levies – into customs duties, which led to an increase in customs duties on agricultural products. Customs duties on all agricultural products following the tarification were also bound, and subsequently, reduced. On agricultural products (WTO definition), the EU reduced levels of bound tariffs by 36% on average, with a minimum reduction of 15% per line, during the implementation period of July 1995 to July 2000, which translated into noticeable drop in customs duties for this group of products in the second half of the 1990s. In the case of industrial goods, changes in customs duties in that period were small and reflected a general downward trend. This resulted from the fact that reductions of customs rates, made under the GATT, in

[5] In the case of data published by the European Commission, this average has been slightly higher in the last years, exceeding 6%. A similar trend can be observed with respect to agricultural goods – approx. 15%. Such a difference results from a different level of data disaggregation (in the EU – 8-digit sub-items of CN, whereas in the WTO – 6-digit sub-items of HS, as well as some differences in the calculation of tariff equivalent, which is particularly noticeable in the case of agricultural goods). For this section data published by the World Bank has been used, which is based on WTO's data – hence the figures are lower than those reported by the European Union.

the group of industrial goods started at a lower level and were, at average, lower than in the case of raw material and agricultural goods. As already mentioned, the level of customs protection, manifested in customs rates in the common customs tariff, differs, with respect to industrial goods and agricultural and raw material products. For the first group, customs rates are considerably lower than in the other one, and that difference was equal nearly to 11% in the second half of the 1990s, whereas in 2016 – 1.5% (own estimates, based on World Bank (2018).

What deserves attention is a low level of import-weighted average duties, and thus a low real level of import protection (safeguard). In the mid-1990s, import-weighted average duty was slightly above 7%, whereas in 2016 – it was almost three times lower and amounted to 2.6% (own estimates, World Bank 2018). A twofold decrease in import-weighted average duties occurred in the group of manufactured products (6.4% in the mid-1990s and 3.4% in 2016). Particularly noticeable decrease was observed in the case of primary products, for which customs duties after tarification were high (the mid-1990s), import-weighted average was equal nearly to 10%, and in 2016it was almost ten times lower (1.5%), while an MFN unweighted applied average for this group of products was: 13% and 2.5% respectively (a greater fivefold drop in that time) (own estimates, World Bank (2018). Such a substantial drop in weighted customs rates and their currently low level in the case of primary products must be accounted for by (apart from the factors mentioned above – namely a decrease in both average and applied MFN rates, following the tarification) changes in the structure of import to the EU in this group of goods, resulting in an increased share of imported goods on which low or zero duties are levied.

Customs protectionism is also manifested – apart from average customs rates – in the share of so-called tariff peaks and zero customs rates in the overall number of tariff lines. Regarding the tariff peaks, there are international peaks and national peaks. International tariff peaks are defined as those exceeding 15%. Domestic tariff peaks are defined as those exceeding three times the overall simple average applied rate. And the fact that tariff peaks can be observed is the evidence for selective customs protection of selected groups of products.

The share of international tariff peaks in the CCT shows generally a downward trend, not only with respect to primary products, but also in relation to all products in general. The greatest share of tariff peaks was reported in 1997, which was the effect of tarification and an increase in customs duties arising there from (Figure 2). Throughout the past two decades, a considerable decrease in the share of international high customs rates in the group of primary products has been experienced, from approx. 30% of all tariff lines to approx. 6-8% in the last years. The

share of international peaks in the group of manufactured products is insignificant and is lower than 0.5% of all tariff lines (Figure 2). Since the beginning of the 21st century, the share of tariff lines with international peaks has reflected a stable trend (Figure 2). This results from the fact that the reductions of customs duties, which were to be made as part of the Uruguay Round, ended in 2001, and further, because customs duties were bound, they could not have been raised again. The share of domestic peaks in the overall number of tariff lines is lower and remains at a level of 6% (WTO, 2017).

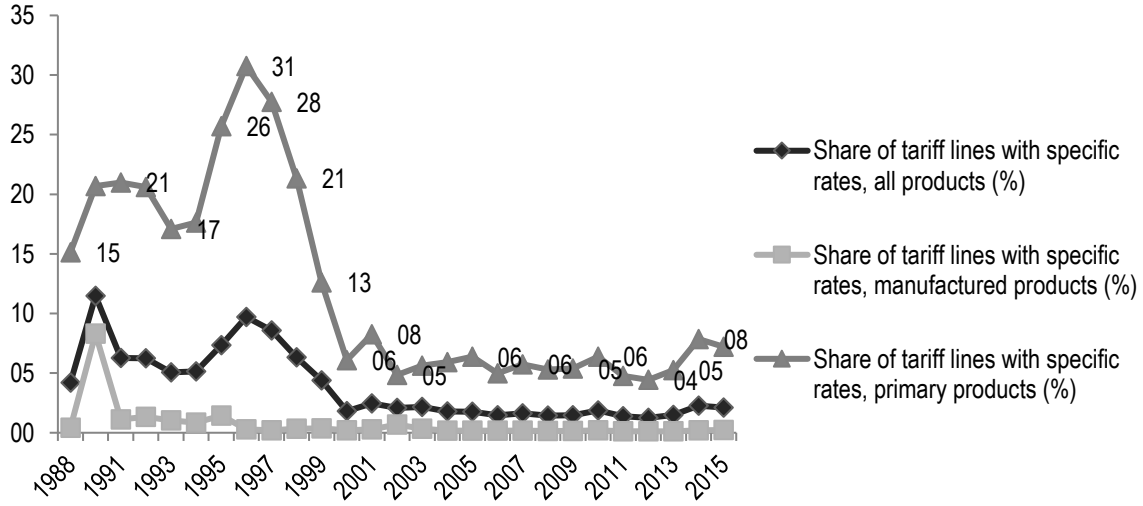

Figure 2. Share of tariff lines with international peaks, according to groups of products

Source: own estimates, based on (World Bank, 2018).

At the other extreme (compared to tariff peaks) – as regards the level of customs protection – is duty-free import or import subject to preferential (lower than MFN rates) duty rates. Throughout the past years, the share of import to the EU to which zero or preferential rates apply has been rising gradually and is now equal to 79% (which is the effect of preferential trade agreements signed and currently being enforced) (European Commission, 2015, p. 10).

Financial Importance of Customs Revenues in European Union

Even though an average rate of customs duties dropped, including also import-weighted rates, customs revenues expressed in absolute values have not gone down substantially in Member States over the past two decades; in fact, they rose. In recent years, the revenues have exceeded EUR 20 billion (in the mid-1990s – it was slightly above EUR 15 billion) (Figure 3). Increased customs revenues in 1995, and which was even more noticeable – in 2004, were caused, to a great extent, by the accession of new countries to the EU and consequently, the extension of

external customs borders[6]. Furthermore, relatively high incomes from customs duties can be justified by an increased import volume and higher import prices.

Since 1975, Member States have been contributing to the Community budget by transferring customs revenues, which constitute TOR. Since 2001, Member States had been obliged to allocate 75% of customs revenues to the EU budget, whereas the remaining 25% was retained for the purpose of state budgets and dedicated to cover operating costs connected, *inter alia*, with the functioning of national customs administrations. Pursuant to the Decision of the Council of 26 May 2014, the above proportions were changed in respect of a new financial perspective, i.e. as from 1 January 2014, and now they are:80% and 20% respectively (Council Decision …, 2014). This means that 20% of customs revenues is retained by the Member States which collected customs duties, and not by final destination countries (Czermińska, 2016).

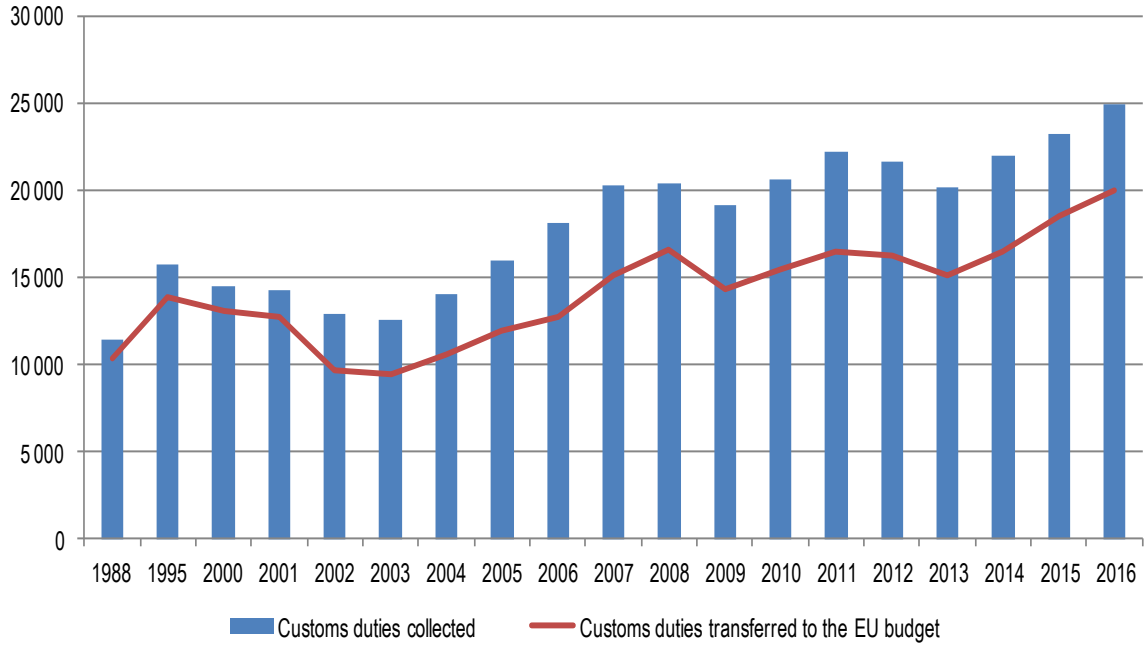

Figure 3. Revenues from customs duties in EU, million EUR

Source: author's calculations, based on (European Communities, 1989-2017).

In the period between 1988 and 2002, a significant decrease in the share of revenues from customs duties in the general budget of the EU was observed (in 1988 – it was nearly 25% of all budget revenues, while in the consecutive years, it showed a downward trend, and in 2002 fell to slightly below 10%) (Figure 4). It must be emphasised that in that time the proportion of revenues from customs duties collected by Member States and allotted to the budget declined

[6]The extension of the external land customs border of the EU by nearly 26%: from 10,606 km (the EU with 15 countries) to 14,303 km (the EU with 28 countries), including the external eastern customs border by approx. 80%, more than 119 thousand officials of the customs authorities across the EU provide service (Czermińska, 2016).

seriously (from 90% to 75%). Currently, this share is approx. 12% and customs revenues have not been the main source of income in the budget of the European Union for years[7].

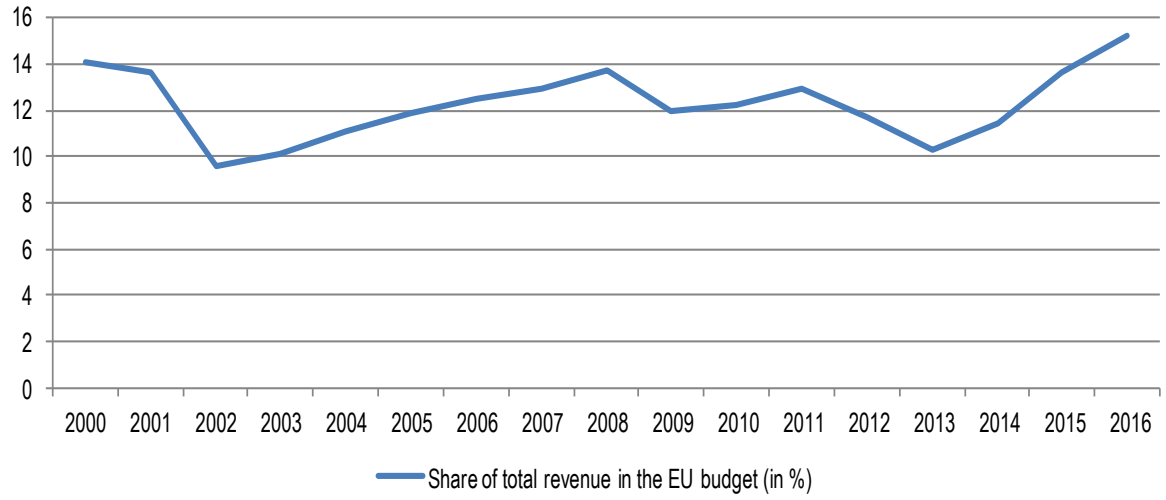

Figure 4. Customs duties The Community's revenue share of total revenue in the EU budget (in %)
Source: as in Figure 3.

Conclusions

An analysis was conducted to examine the rates and types of and changes in customs duties in the EU customs tariff, which confirmed the research hypothesis that customs duty rates generally no longer play any prominent role in the protection of the internal market. Throughout more than twenty years, they have showed a downward trend, as from the mid-1990s (an average applied customs duty rate has dropped by 9 per cent, whereas an import-weighted average duty declined by more than four times). The zero customs duty (MFN) rate applies to nearly 26% of all tariff lines, and what is even more, the most of goods (30% of all tariff lines) are subject to low customs duty rates, fixed at 0% to 5%, inclusive. Nevertheless, as regards certain goods, mainly agricultural products (dairy produce, sugar and confectionery, cereals[8]), but also textiles, clothing, cars, customs duties are still considered abarrier to access to the EU market. This is reflected not only in high MFN customs duty rates and applied customs duty rates (even more than 100%, when expressed as *ad valorem* duties), but also quantity-based

[7] As a share of duty revenues in the general budget of the EU was becoming smaller (after 1988), a share of VAT revenues derived from Member States increased (until 1998). From 1999, a share of incomes derived from a so-called fourth source, which includes GNI (Gross National Income) contributions of Member States, has been increasing. This last source currently represents over 70% of all EU budget revenues (see: European Communities financial reports for years 1989-2017).
[8] They include unprocessed agricultural products, which are covered by the common agricultural policy. However, as regards other agricultural products for which excess demand can be seen or where an increase in supply is limited e.g. due to climatic conditions: linen, cotton, wool, oilseeds, the Union applies very low customs duty.

duties and tariff peaks, both national and international. After the Uruguay Round, duties related to all tariff lines were bound, hence they cannot be raised. As for agricultural commodities, customs duties were bound at a high level (after tarification), in practice, customs rates applied to imports to the European Union are similar to bound rates. Moreover, entry prices and seasonal customs duty rates ensure a high level of tariff protection for certain fruit and vegetables, and consequently, they provide economic security for EU manufacturers and safeguard their interests. One might hazard a guess that although the common trade policy is believed to be very liberal (which refers to the liberalisation of access to third countries' markets), when it comes to imports – we may sometimes observe very high tariff barriers intended for protecting sensitive sectors against foreign competitors.

The proportion of revenues from customs duties in the EU budget in last years has become unchanged and is equal to approx. 12%. Duty revenues do not represent the main source of the EU's income, nevertheless, they do not indicate a downward trend either, even though the customs protectionism, manifested through the rate of customs duties in the EU customs tariff, has declined.

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