

## THE EUROPEAN UNION CUSTOMS UNION

Marina KESNER-ŠKREB, MSc  
Institute of Public Finance, Zagreb

Glossary\*

The European Union Customs Union is a customs union (i.e. a group of economies with no internal barriers to trade and a common external tariff) consisting of all the member states of the EU and a number of surrounding countries (i.e. EFTA countries – Norway, Iceland, Liechtenstein and Switzerland).

The Customs Union is an essential element in the functioning of the single market and fulfils a principal task of the European Economic Community established in 1958 by the Treaty of Rome. The single market can only function properly when there is a common application of common rules at its external borders. No customs are levied on goods travelling within the Customs Union and members of the Customs Union impose a common external tariff on all goods entering the union. One of the consequences of the Customs Union is that the European Union has to negotiate as a single entity in international trade deals such as with the World Trade Organization (WTO).

The EU is the world's biggest trader, accounting for 20% of global imports and ex-

ports. The EU is the leader in the world trade system, both as a key player in the World Trade Organization and a prolific signer of bilateral trade agreements.

The EU has been a key player in international trade liberalisation negotiations. The latest of these is the so-called Doha Development Round which began in 2001. The aim of these negotiations, held in the framework of the WTO, is to reduce tariffs and remove other barriers to world trade.

Trade rules are multilateral, but trade itself is bilateral – between buyers and sellers, exporters and importers. This is why the EU, in addition to its participation in Doha and previous WTO rounds, has also developed a network of bilateral trade agreements with individual countries and regions across the world.

It has partnership and cooperation agreements with its neighbours in the Mediterranean basin and with Russia and the other republics of the former Soviet Union.

The EU's trade policy is closely linked to its development policy. The Union has granted duty-free or cut-rate access to its

---

\* *Received:* February 8, 2010

*Accepted:* February 15, 2010

market for most of the imports from developing countries under its generalised system of preferences (GSP). It goes even further for the world's 49 poorest countries, all of whose exports – with the sole exception of arms – enter the EU duty-free.

The EU has developed a new trade and development strategy with its 78 partners in the Africa-Pacific-Caribbean (ACP) group aimed at integrating them into the world economy. It also has a trade agreement with South Africa that will lead to free trade, and it is negotiating a free-trade deal with the six members of the Gulf Cooperation Council (GCC) – Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. The EU has agreements with Mexico and Chile and has been trying to negotiate a deal to liberalise trade with the Mercosur group – Argentina, Brazil, Paraguay and Uruguay.

It does not, however, have specific trade agreements with its major trading partners among the developed countries like the United States and Japan. Trade is handled through the WTO mechanisms, although the EU has many agreements in individual sectors with both countries.

The WTO framework also applies to trade between the EU and China, which joined the world trade body in 2001. China is now the Union's second biggest trading partner after the United States.

According to the Stabilization and Association Agreement signed between Croatia and the EU in 2001, the EU abolished tariffs and other trade barriers on the imports

of Croatian goods. Also, since the beginning of 2002 there have been no Croatian tariffs on or quotas for most manufactured goods of EU origin.

Although the EU has preferential tariffs on imports from all but nine nations in the world, those nine nations account for about one-third of the EU's external trade, so the tariff it charges these nations matters. The EU defines individual tariff rates for about ten thousand products. The average rate is 6.5 per cent but this hides a wide variation. About one-quarter of the rates on all products are set at zero (mostly industrial goods, including electronics), while the average for industrial goods is 4.1 per cent. The average on agricultural imports is just over four times this, at 16.5 per cent, which means that most food imports are subject to high tariffs.

## LITERATURE

**Baldwin, R. and Wyplosz, Ch., 2006.** *The Economics of European Integration*. New York: The McGraw-Hill.

**European Communities, 2009.** *What is Europe's trade policy?* [online]. Available from: [[http://trade.ec.europa.eu/doclib/docs/2009/may/tradoc\\_143154.pdf](http://trade.ec.europa.eu/doclib/docs/2009/may/tradoc_143154.pdf)].

**European Parliament Fact Sheets** [online]. Available from: [[http://www.europarl.europa.eu/factsheets/1\\_5\\_1\\_en.htm](http://www.europarl.europa.eu/factsheets/1_5_1_en.htm)].

**Glossary** [online]. Available from: [[http://europa.eu/scadplus/glossary/index\\_en.htm](http://europa.eu/scadplus/glossary/index_en.htm)].