

# EUROPEAN BACKGROUND INFORMATION COMMUNITY

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BACKGROUND NOTE

No. 17/1977

July 1, 1977

## LAST TARIFF BARRIERS FALL IN EUROPEAN COMMUNITY

The removal on July 1 of tariff barriers for industrial goods within the European Community marks the final step in a nearly 4 1/2 year transition to full Common Market membership for Britain, Denmark and Ireland.

Through the simultaneous removal of trade barriers between the EEC and the European Free Trade Association, it also marks the opening of a 16-nation European trade area for some 300 million people, with an estimated gross domestic product in 1976 of \$1.7 trillion.

Only a handful of highly sensitive products, such as paper, cellulose, quality steel, crude aluminum and ferroalloys will continue to carry customs levies for an additional three to seven years in the EFTA countries. Except for these, all non-agricultural goods within the nine-nation European Community and the seven-nation EFTA can be traded without tariff duties. The six original European Community nations -- Belgium, France, Germany, Italy, Luxembourg, the Netherlands -- eliminated customs duties for their trade on July 1, 1968.

It was agreed in 1973 when Britain, Denmark and Ireland acceded to the Community that European Community secondary legislation that would pose difficulties for the new members would not become effective immediately but would come into force after specified periods of transition. The three new Community members were given grace periods of up to six months to adopt most of their national laws to Community law. The Community's anti-trust policy, for example, came into force in Britain, Denmark and Ireland in July 1973.

For the EFTA, which includes Austria, Finland, Iceland Norway, Portugal, Sweden and Switzerland, the abolishment of customs duties means the end of a 4 1/2 year period of gradual adjustment. Britain and Denmark were members of EFTA before joining the Community, and adjustments between EFTA and EC tariffs were made to avoid damaging trade relations.

The European Community's customs union, now fully established within the nine member nations, establishes a Common Customs Tariff and, in most cases, common customs legislation, thereby easing intra-Community trade regulations and speeding internal and international commercial exchanges. Trade within the Community last year amounted to about \$169 billion; Community imports and exports with non-member countries totaled about \$336 billion.

The importance of a European customs union in economic terms was foreseen by the founders of the European Community, who sought to establish an integrated and interdependent market in Europe along the lines of the United States.

Free movement of Community goods throughout the EC customs territory has created a greater solidarity among the member states. The common market has enabled Community enterprises, whether of an industrial or a commercial nature, to direct their activities toward a single market that now numbers about 260 million consumers. As a result, Community consumers have access to an increasingly wide range of products.

The common external tariff has also simplified international trade, allowing goods to be levied at the same rate whether entering the Community at, for example, Rotterdam, Genoa or Frankfurt.

The Community founders also anticipated the political importance of a customs union. The first president of the European Economic Commission, Walter Hallstein, often spoke of economic integration leading to political integration. "The unification of at least certain essential elements of economic policy in Europe is something that affects political realities in continental Europe," he said in early 1958. "I am convinced," he continued, "of a progressive development that will eventually lead to institutions responsible not only for economic affairs but also for political affairs in the true and particular sense of the term."

In political terms, the setting up of a Common Customs Tariff and the exercise of Community powers for its management and negotiation with non-member countries has contributed to recognition of the Community by other nations. The Community spoke for the first time as a unified political voice at the Dillon Round negotiations within the General Agreement on Tariffs and Trade (GATT) in 1960. Today, no international convention affecting the application of duties can be implemented by Community states unless the convention recognizes the Community as the sole authority on customs and tariffs. The necessity of reaching agreement within the member states on a common position for such external negotiations has also aided a gradual political and economic cohesion of the Community nations.

The customs union aspect of the Community, however, is not yet perfect. Nine Commission proposals for customs legislation are still under examination by the Council of Ministers. Others are being prepared by the EC Commission, the initiator of Community policy.

These proposals are expected to remove some existing national regulations that pose barriers to intra-Community trade, to simplify and strengthen Community provisions on customs controls and to harmonize sanctions against infringements of the Community's customs regulations.

The obstacles still in the way of free movement of Community goods are in most cases not tied to customs regulations, however, but fall under Article 36 of the Treaty of Rome, which allows member states to set national prohibitions or restrictions on "imports, exports or goods in transit, justified on grounds of public morality, public policy or public security, the protection of health and life of humans, animals or plants..."

In addition to easing trade, the Commission also seeks to ease non-commercial transactions so that, for example, the "customs clearance charge" allowed by the Universal Postal Convention on postal consignments will be abolished within the Community, thereby making the reality of the Community more apparent to its everyday citizens.

The customs union has made clear the need for further harmonization of national laws in industrial and agricultural production and in the field of transport.

Customs provisions that have been adopted by the Council as directives or regulations concern a definition of common customs territory, definition of the origin of goods, definition of the value of goods for customs purposes, Community transit arrangement, inward and outward processing arrangements, customs warehousing and free-zone arrangements, the treatment applicable to Community returned goods, customs treatment of goods, deferred payment of customs duties, and the granting of duty-free privileges (for travelers, objects of a cultural nature, products intended for testing, etc.).

These provisions clearly have an impact on international trade, in most cases simplifying the regulations for both buyer and seller.

Before the adoption of the Common Customs Tariff by the Council in 1960, the tariff headings in the then-six Community nations numbered about 20,000. The amalgamation of these headings into about 3,000 dutiable categories required some two years' effort and was an attempt to provide both business operators and customs authorities with a practical and unambiguous instrument. Within recent years, through the introduction of the common agricultural policy and the conclusion of preferential agreements between certain non-member countries and the Community, the tariff nomenclature now stands at about 3,700 categories.

The customs union is also a basic element in the Community's aid to developing countries. By lowering or exempting customs tariffs to certain countries, the Community provides substantial foreign aid and also encourages the industrialization of these nations. The Lome Convention, for example, has established the regulations for aid and trade between the Community and 52 African, Caribbean and Pacific countries.

Monies obtained through customs receipts also are a significant portion of the Community's independent budgetary resources.