

Global Vision Perspective

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Ninety-three per cent of UK imports do not bear Customs Duties Ian Milne

Only 7 per cent of the UK's worldwide imports bear customs duties, which, as a proportion of those imports' value, average less than one-half of one per cent.

What is the point of a country belonging to a customs union when customs duties are so low that the costs of collecting them outweigh the amounts collected? Especially when membership of the customs union goes with a massive growing structural trade deficit with the other members of the customs union?

That is the situation the UK, a member of the EU Customs Union, finds itself in.

As levied by mature industrialised countries, the costs of collecting customs duties almost certainly exceed the amounts raised. In the UK for example, the gross amount collected in 2005 - £2.25 billion - let alone the much smaller amount (£0.56 billion) actually retained in the UK, rank almost as HM Treasury rounding errors. If duties - and their associated paperwork and bureaucracies - were abolished, either by each country unilaterally (as the UK did in the 19th Century, and as Hong Kong did in the 20th Century), or as a result of multilateral agreements, the economic gains would be substantial:-

- Customers would pay less for imported goods
- Manufacturers incorporating imported goods in their products could reduce prices in both export and domestic markets
- Taxation could be reduced
- Indirectly, the beneficial effect of eliminating paperwork and bureaucracy would ripple throughout the economy (the 'dynamic' effect).

For as long as the UK remains a member of the EU Customs Union it is of course powerless to take such action.

The UK's structural deficit on trade with the rest of the EU is discussed in Global Vision Fact Sheet No. 15.4: *UK trade: rising deficit with the EU, surplus with the Rest of the World.*¹ Why does the UK have a structural surplus on its trade with the most technologically-advanced nation in the world, the USA, **with which the EU Customs Union - and therefore the UK - has no free trade agreement?** Why does the UK have a structural deficit on its trade with the rest of the EU, when - in theory - free trade exists between all 27 member states (though not in farming and fishing)?

There are no easy answers to these questions. But one hypothesis deserving close examination is that the Byzantine system of governance with which the EU has equipped itself over the last 50 years exacerbates the structural industrial weaknesses of individual member states,² especially the larger members such as France and the UK. If the UK manages to trade in surplus with the USA in the absence of any preferential trading arrangements with that country, there must - on the face of it - be a strong argument for supposing that UK-EU trade, in the absence of any preferential trading arrangements with the EU, would tend to equilibrium, even to a UK surplus.

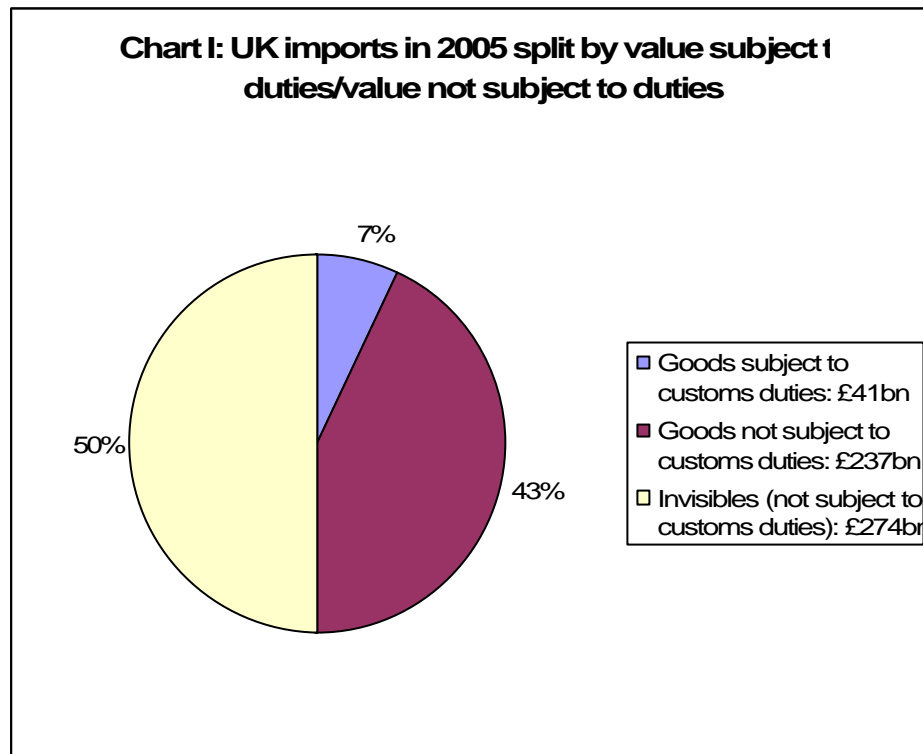
Customs Duties on UK Imports

- Of the £552 billion of all UK imports (goods, services, income & transfers³) in 2005, no less than £511 billion, or **93 per cent, were free of customs duties.** [Table 1.]
- Of the £279 billion of UK goods imports from the whole world (EU26 and outside the EU) in 2005, no less than **85 per cent were free of customs duties.** [Table 1.]
- The remaining 15 per cent of total UK goods imports (£41 billion in 2005, all imported from countries outside the EU) bore average customs duties of 5.5 per cent. [Table 1.]
- Within that average of 5.5 per cent, UK imports from outside the EU of **industrial goods** (excluding agricultural & fishing produce) bore average customs duties of 4.8 per cent, while imports from outside the EU of agricultural & fishing produce bore average customs duties of 13.3 per cent. [Table 1.]
- Total UK imports of industrial goods from outside the EU in 2005 (£119 billion: £81.1 billion with zero duty; £38.2 billion with positive duty) bore average customs duties of 1.6 per cent. [Table 1.]
- In 2005, **UK imports of industrial goods and agricultural and fishing produce from the whole world** (EU26 & outside the EU) of £279 billion bore on average **customs duties of under one per cent - 0.8 per cent.** [Table 1.]

- In 2005, **UK imports of all categories (goods, services, income & transfers)** from the whole world (EU26 & outside the EU) of £552 billion bore average **customs duties of less than one-half of one per cent** - 0.4 per cent. [Table 1.]
- Of the **£485 billion⁴ raised in taxes** by the UK in 2005/6, **less than one-half of one per cent** - 0.46 per cent or £2.25 billion - **came from customs duties** charged on imports into the UK on behalf of the EU under the EU Common External Tariff. Those customs duties were handed on to Brussels, less a 'handling charge' of £0.56 billion retained by HM Government. In other words, the **customs duties that HM Government retains in the UK for its own purposes represents only one ninth of one per cent of its total tax take.**

Table 1: 2005: UK Custom Duties On Imports⁵: £bn. (See also Chart below)

From where	Value of Imports	Value of CET ⁶	Average Rate of Duty
Goods:			
Non-EU Goods:			
Non-EU industrial goods with positive duty	38.2	1.85	4.8%
Non-EU agriculture & fishing produce, with duty	3.0	0.40	13.3%
Sub-total: non-EU goods, with duty	41.2	2.25	5.45%
Non-EU industrial goods with zero duty	81.1	Zero	Zero
All non-EU goods	122.3	2.25	1.8%
All EU goods, zero duty	156.2	Zero	Zero
Sub-total: non-EU & EU, zero duty	237.3	Zero	Zero
Total goods (non-EU & EU)	278.5	2.25	0.8%
Invisible trade (non-EU & EU):			
Total services, zero duty	88.1	Zero	Zero
Total income, zero duty	157.2	Zero	Zero
Total transfers, zero duty	28.5	Zero	Zero
Total invisible trade	273.8	Zero	Zero
All Imports from Whole World	552.2	2.25	0.4%
Of which:			
Bearing duty	41.2	2.25	5.45%
Duty free	511.1	Zero	Zero



Customs Duties Internationally

Tables 2A and 2B give, for selected countries, standardised weighted average rates of duty, as quoted in the *2007 Index of Economic Freedom*.⁷ These rates give an indication of countries' rates relative to each other, though their absolute levels may be overstated.

For example, in Table 2A, weighted average rates of duty for the EU and the USA are shown to be the same, while Switzerland's is half that of Iceland.

However, the *2007 Index of Economic Freedom* assumes that the weighted average rate of duty for all EU countries, including the UK, is the same: 1.7 per cent. This is more than double the 0.8 per cent calculated from actual UK government data on values of imports and values of duty collected. The possibility must exist, if only for mature industrialised countries, that the *Index of Economic Freedom* data generally overstates the real level of average customs duty.

The data for Europe and North America in Table 2A shows that members of Free Trade Associations (FTAs) such as EFTA (comprising Norway, Switzerland and Iceland) and NAFTA (comprising Canada, the USA and Mexico) retain control over their national trade policy, and can and do set customs duties at rates different from those of other members of the relevant FTA.

The data for South America in Table 2B shows that Mercosur, the 'customs union' to which both Argentina and Brazil belong, allows its members, unlike the EU, to set differing rates of duty, as if they were members of an FTA.

Table 2A: Selected Countries: Customs Duties on Imports of Goods⁸:Average⁹ Rates

Region	Country	Average ⁹ Rates of Duty
Europe	Norway	0.4%
	Switzerland	1.5%
	EU	1.7%
	Iceland	3.0%
Near-Europe	Turkey	2.0%
	Ukraine	3.9%
	Russia	8.7%
Australasia	New Zealand	3.0%
	Australia	3.1%
North America	Canada	0.9%
	USA	1.7%
	Mexico	3.7%

Table 2B:Selected Countries: Customs Duties on Imports of Goods⁸: Average⁹ Rates

Region	Country	Average Rates of Duty
South-East Asia	Hong Kong	Zero
	Singapore	Zero
	Taiwan	1.7%
	Japan	2.4%
	Philippines	2.6%
	Malaysia	4.1%
	Thailand	5.4%
	Indonesia	5.5%
	China	6.0%
	South Korea	7.9%
	Vietnam	14.5%
Indian Sub-Continent	Sri Lanka	6.7%
	Pakistan	13.2%
	India	14.4%
South America	Chile	3.8%
	Brazil	7.6%
	Argentina	9.3%
Africa	South Africa	5.6%
	Nigeria	11.7%
	Egypt	13.9%

World Trade, the EU and the UK

Governments restrict and distort international trade by imposing on imports Customs Duties ('tariffs') and/or Non-Tariff Barriers (NTBs) such as quotas. (The EU's Common Agricultural Policy imposes both duties and quotas; even within the EU, it imposes quotas on trade between member states in produce such as milk. The Common Fisheries Policy imposes quotas on how much each member state can fish.)

Customs duties are taxes charged on imports (and occasionally, as in China, on exports) of goods. Customs duties are not charged on imports of the other categories of international trade: services, income and transfers.

The Geneva-based World Trade Organisation (WTO), an intergovernmental multilateral body with over 150 member countries, regulates international trade in general and the associated customs duties and NTB regimes in particular. Its aim is to reduce and eventually eliminate such barriers to trade.

The UK (and all other EU member states) belong to the EU Customs Union. EU member states, including the UK, have no trade policies of their own, having agreed on accession to adopt those of the Customs Union. Thus, the UK cannot and does not determine its own trade policy, nor set its own rates of customs duty. At the WTO, the UK and the other EU member states have no seat or vote. The EU represents them and votes in their stead on behalf of the Customs Union as a whole. This may be one reason why the UK has a massive, rising and structural trade deficit with the rest of the EU (and, conversely, why the rest of the EU has a correspondingly massive, rising and structural trade surplus with its biggest single customer, the UK).

Notes & References

1. http://www.global-vision.net/facts/fact15_4.asp#
2. In 2006, the French Prime Minister's own policy unit concluded that neither the single currency nor the single market had had a positive effect on the French economy, principally because of the EU system of governance. See Global Britain Briefing Note No. 43, 13th October 2007, *France Assesses Costs & Benefits of EU Membership*, www.globalbritain.org
3. See *UK Trade: the proper definition of 'trade'*, Fact Sheet No. 15.3, http://www.global-vision.net/facts/fact15_3.asp#
4. Page 234, *Pre-Budget Report*, December 2006, Cm 6984, HM Treasury, www.hm-treasury.gov.uk
5. Source of data: Written Answers, House of Lords, 22nd Nov 2006, HL 148, HL 149, HL 150, HL 152, & 28th Nov 2006, HL 151, www.publications.parliament.uk; *United Kingdom Balance of Payments: The Pink Book 2006*, Office for National Statistics, www.statistics.gov.uk
6. 'CET' : The EU Customs Union Common External Tariff, which all EU member states must apply to imports of industrial & agricultural/fishing goods from outside the EU.

7. *2007 Index of Economic Freedom*, The Heritage Foundation/*The Wall Street Journal*, 2007, Kane, Holmes, O'Grady, www.heritage.org, www.wsj.com See especially pp 41 & 42.
8. To estimate weighted average rates of duty, the *2007 Index* (see note 7 above) primarily uses World Bank World Development Indicators 2005, World Bank Data on Trade & Import Barriers: Trends in Average Tariff Rates for Developing & Industrial Countries 1981-2003 www.worldbank.org
9. Weighted Average Rate of Duty: the amount of duty actually collected, divided by the total value of all goods imported, including those with zero rates & those with positive rates.

Notes on the author:

Ian Milne has been the Director of the cross-party think-tank Global Britain since 1999. He was the founder-editor (in 1993) of *The European Journal*, and the co-founder (in 1995) and first editor of *euofacts*. He is the translator of *Europe's Road to War*, by Paul-Marie Coûteaux, (published by The June Press), and the author of numerous pamphlets, articles and book reviews, mainly about the relationship between the UK and the European Union. His most recent publications are *A Cost Too Far?* (Civitas, July 2004), an analysis of the net economic costs and benefits for the UK of EU membership, and *Backing the Wrong Horse* (Centre for Policy Studies, December 2004), a review of the UK's trading arrangements and options for the future.

Global Vision is a new campaign group backed by economists and business leaders that argues for a looser British relationship with the EU, based on trade and mutually beneficial trade and cooperation, whilst opting out of economic and political union. Global Vision believes that this is the right relationship for Britain in the 21st century's rapidly changing world. For more details on Global Vision please visit our website: www.global-vision.net.