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# **Customs Administrations Operating Under Customs Union Systems**

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*Tadashi Yasui*

## **Abstract**

This paper is intended to shed light on the impact of Customs Union systems on Customs administrations, an area which remains relatively unexplored to-date. To this end, this paper focused on three particular areas under Customs Union systems, namely; Customs revenue management, border controls and procedures and institutional arrangements. One of the conclusions of this paper is that a Customs Union is able to provide a sound and sustainable international legal basis thereby affording member Customs administrations ample opportunities to improve their procedures and cooperation at the regional level. This paper also argues that a Customs Union could effectively harmonize Customs procedures at the regional level if they are aligned with international standards including the WCO's Revised Kyoto Convention.

## **Key words**

Customs Union, regional trade agreement, Customs revenue management, border controls and procedures, institutional arrangements

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## 1. Introduction

Regional economic integration is an effective means of boosting intra-regional trade and improving regional economic competitiveness. Border procedures could effectively improve connectivity between trading partners if they are harmonized, simplified and appropriately managed. This is especially the case with modern-day global value chains. There are a variety of policy options available to support regional economic integration, and many governments are in favour of international legislative frameworks.

A typical example of the frameworks is a Regional Trade Agreement (RTA). The information on the RTAs notified by WTO Members is available in the WTO RTA Database.<sup>1</sup> The Database defines three types of RTAs: Free Trade Agreements (FTAs), Customs Unions and Partial Scope Agreements, and indicated that there were 247 RTAs for trade in goods physically in force at the end of 2013.<sup>2</sup> All WTO Members except Mongolia were members to one or more RTAs (WTO, 2013a).

Amongst the different types of RTAs, an FTA was the most common, accounting for nearly 90 percent, half of which entered into force in the last eight years. The trend in favour of FTAs is likely to continue for the time being, given the number of ongoing negotiations. Reflecting the growing interest in the recent proliferation of FTAs, the impact of FTAs on Customs administrations has been reviewed on many occasions (OECD, 2003; WTO, 2012; World Bank, 2011; Yasui 2014).

In contrast, the impact of Customs Unions on Customs administrations remains relatively unexplored to-date. Compared with an FTA, a Customs Union could involve a significant and multidimensional impact on member Customs administrations (Kieck and Maur, 2010; Andriamananjara, 2011). With this in mind, this paper is intended to shed light on the impact of Customs Union systems on Customs administrations.

Following this first section, the second section of this paper reviews the general concept governing Customs Unions systems. The third section discusses the impact of Customs Union systems on Customs administrations particularly in three areas, namely: Customs revenue management; border controls and procedures; and institutional arrangements. This is accomplished by reviewing empirical evidence of functional Customs Unions in comparison to FTAs. The fourth section offers conclusions of this paper.

## 2. Customs Union systems

A Customs Union can be interpreted in different ways according to disparate international conventions or agreements. For reference, the Box below indicates definitions of Customs Unions in the GATT, the Revised Kyoto Convention (RKC) and the Istanbul Convention. Nevertheless, it is generally understood as the substitution of a single Customs territory for two or more Customs territories where a common external tariff (CET) on trade with non-members is imposed and tariff on trade between members is eliminated (Kieck and Maur, 2010). It is distinguished from an FTA which allows different tariff rates on trade with non-members.

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<sup>1</sup> The WTO RTA Database is available at: [www.wto.org/english/tratop\\_e/region\\_e/rta\\_pta\\_e.htm](http://www.wto.org/english/tratop_e/region_e/rta_pta_e.htm), accessed on 30 January 2014

<sup>2</sup> A Partial Scope Agreement is not legally defined under the WTO Agreements, whilst the others are respectively defined in Article XXIV of the GATT. It generally covers limited goods for preferential tariff treatment, and it is normally notified to the WTO under the Enabling Clause.

**Box: Definitions of Customs Union in agreements and conventions**

**Article XXIV.8(a) of the GATT:**

**A customs union** shall be understood to mean the substitution of a single customs territory for two or more customs territories, so that

- (i) duties and other restrictive regulations of commerce (except, where necessary, those permitted under Articles XI, XII, XIII, XIV, XV and XX) are eliminated with respect to substantially all the trade between the constituent territories of the union or at least with respect to substantially all the trade in products originating in such territories, and,
- (ii) subject to the provisions of paragraph 9, substantially the same duties and other regulations of commerce are applied by each of the members of the union to the trade of territories not included in the union;

**Article 1(k) of the Revised Kyoto Convention (RKC):**

(k) **“Customs or Economic Union”** means a Union constituted by, and composed of, States which has competence to adopt its own regulations that are binding on those States in respect of matters governed by this Convention, and has competence to decide, in accordance with its internal procedures, to sign, ratify or accede to this Convention.

**Article 1(e) of the Istanbul Convention:**

(e) **“Customs or Economic Union”** means a Union constituted by, and composed of Members, as referred to in Article 24, paragraph 1, of this Convention, which has competence to adopt its own legislation that is binding on its Members, in respect of matters governed by this Convention, and has competence to decide, in accordance with its internal procedures, to sign, ratify or accede to this Convention.

(source) Compiled by Author

At the end of 2013, there were 17 Customs Unions notified to the GATT/WTO as in force according to the WTO RTA Database.<sup>3</sup> Four of them are associated with the European Union (EU), and ten are in Africa or Latin America. They appear as the Table below.

**Table: Customs Unions in force (as of December 2013)**

Customs Unions	Number of members	Basis of notification to the GATT/WTO	Date of entry into force
EC Treaty*	28	GATT Art. XXIV	1-Jan-58
Central American Common Market (CACM)	5	GATT Art. XXIV	4-Jun-61
Caribbean Community and Common Market (CARICOM)	15	GATT Art. XXIV	1-Aug-73
Andean Community (CAN)	4	Enabling Clause	25-May-88
EU – Andorra	29	GATT Art. XXIV	1-Jul-91
Southern Common Market (MERCOSUR)	5	Enabling Clause	29-Nov-91
Economic Community of West African States (ECOWAS)	15	Enabling Clause	24-Jul-93
Common Market for Eastern and Southern Africa (COMESA)	19	Enabling Clause	8-Dec-94
EU – Turkey	29	GATT Art. XXIV	1-Jan-96
Eurasian Economic Community (EAEC)	5	GATT Art. XXIV	8-Oct-97
Russian Federation - Belarus – Kazakhstan	3	GATT Art. XXIV	3-Dec-97
Economic and Monetary Community of Central Africa (CEMAC)	6	Enabling Clause	24-Jun-99
West African Economic and Monetary Union (WAEMU)	8	Enabling Clause	1-Jan-00
East African Community (EAC)**	5	Enabling Clause	7-Jul-00
EU - San Marino	29	GATT Art. XXIV	1-Apr-02
Gulf Cooperation Council (GCC)	6	GATT Art. XXIV and Enabling Clause	1-Jan-03
Southern African Customs Union (SACU)	5	GATT Art. XXIV	15-Jul-04

\* The EU’s enlargement occurred seven times during 1973-2013.

\*\* The accession of Burundi and Rwanda to the EAC took place in 2007.

(source) The WTO RTA database, available at: [www.wto.org/english/tratop\\_e/region\\_e/rta\\_pta\\_e.htm](http://www.wto.org/english/tratop_e/region_e/rta_pta_e.htm), accessed on 30 January 2014.

<sup>3</sup> Accessed on 30 January 2014.

In contrast with FTAs, Customs Unions are usually established between geographically contiguous countries, and generally span a large number of members. The 17 Customs Unions in the Table collectively cover more than 100 members. Considering those not notified to the GATT/WTO, such as the Southern African Development Community (SADC) and the agreement between Switzerland and Lichtenstein, it seems that quite a few Customs administrations are already operating under Customs Union systems.

In reality, however, the Customs Unions in the Table are at different stages of development, and the degree of their integration also varies. For example, eight were notified to the GATT/WTO under the Enabling Clauses<sup>4</sup>, while others fell under Article XXIV of the GATT. Many of them, especially those that harbour developing countries, appear imperfect because certain sensitive goods are excluded from the CET application for the goods of non-members, and also Customs duties are imposed on certain kinds of goods moving between members (Kieck and Maur, 2010). It can be assumed that many of these Customs Unions may eventually evolve to form a single Customs territory under the framework of respective Customs Union systems. Thus, it should be noted that the potential impact of Customs Unions on member Customs administrations, although it is likely more significant than FTAs, may vary depending on the degree to which the Union is evolving to become a single Customs territory.

The Table also revealed that no new Customs Union entered into force after 2004. Considering the recent proliferation of FTAs, one could contend that a Customs Union is no longer a popular option in terms of regional economic integration (Andriamananjara, 2011). However, there has been extensive progress in the sphere of Customs Unions. For instance, the EU has been enlarged thus far seven times to cover 28 member states, and five candidate countries are currently negotiating for future accession.<sup>5</sup> Building on the existing Customs Union, Belarus, Kazakhstan and the Russian Federation expressed their intention to create a “*common economic space*”, paving the way for the Eurasian Economic Union by 2015. Three Regional Economic Communities in Africa (EAC, COMESA and SADC) has been working to develop a free-trade area in accordance with the Tripartite Agreement Roadmap.

Some economists contend that countries could deepen regional economic integration so as to evolve from FTAs to Customs Unions (WTO, 2012). Anecdotal evidence has shown that there is a significant gap between the two systems in terms of impact on member Customs administrations (Kieck and Maur, 2010; Andriamananjara, 2011). Compared with FTAs, Customs Unions could involve a significant and multidimensional impact on member Customs administrations especially in terms of Customs revenue management, border controls and procedures, and institutional arrangements.

### **3. Impact on Customs administrations**

#### **3.1 Customs revenue management**

It is likely that there would be a reduction in Customs duties if the preferential tariff of an FTA is effectively utilized. Nevertheless, it is difficult to estimate the overall impact on Customs revenue, partly because most Customs administrations are tasked with the collection of other duties and taxes. A survey revealed that more than 120 Customs administrations collect more revenue from VAT or excise duties on imported goods than

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<sup>4</sup> The Enabling Clause is officially called the “Decision on Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries”, adopted by the GATT in 1979.

<sup>5</sup> Five candidate countries for EU accession are: Iceland, the Former Yugoslav Republic of Macedonia, Montenegro, Serbia and Turkey. Further information is available at: [http://ec.europa.eu/economy\\_finance/international/non\\_eu/candidate/index\\_en.htm](http://ec.europa.eu/economy_finance/international/non_eu/candidate/index_en.htm)

Customs duties (WCO 2013). The more trade flows between members of FTAs, the more VAT or excise duties will potentially be received by member Customs administrations. In terms of revenue management, it appears that an FTA would result in little change for member Customs administrations, because they continue to collect and retain Customs duties on trade with non-members as well as with members if they are required.

Similar to FTAs, Customs Unions would impact Customs duty collection, and it is likely to undergo a reduction in Customs duty collection as Customs duties on trade between members are eliminated. The impact of Customs Unions on Customs duties is also contingent upon the level of the CET. There are numerous factors involved in the determination of the level of CET; hence reaching an agreement on the CET can take some time. It took eleven years for the EU to establish its CET, and four years until the Mercosur agreed on its CET of the non-agricultural sector (Andriamananjara, 2011).

As distinct from FTAs, however, Customs Unions require prudent revenue management of Customs revenue. One of the prevailing principles is the *final destination principle*, whereby the collected revenue belongs to the member of final consumption. Another is the *origin principle*, whereby the collected revenue belongs to the member of duty collection or is transferred to a common fund to finance common polices. Most Customs Unions in the Table allocate Customs duties and other Customs revenue according to the *final destination principle*. Experience has shown that each has its own distinct advantages and disadvantages.

#### *Final destination principle*

One practical method under the final destination principle is that Customs duties are collected at the first port of entry into the Customs territory (i.e. external borders) and transferred to the member where the goods are to be consumed. The GCC adopted this method in 2003 as an interim arrangement (Kieck and Maur, 2010). This method mandates the identification of the final destination at the external borders. The administrative burden on the member Customs administrations that collect and transfer the duties can be substantial. In situations where intra-regional trade is asymmetrical, it is essential to cultivate a high level of trust among members or to adopt other mechanisms to administer the system. As for the EAC, the Uganda Revenue Authority (URA) has placed its Customs staff at the Kenyan Mombasa port, one of the busiest gateway ports in the EAC, to process good declarations and collect Customs duties on the goods destined for Uganda (URA, 2013).

It is argued that this method may not function appropriately in cases where goods are imported into a member imposing Customs duties, and then simply transhipped, repackaged or minimally transformed within the member to be subsequently sent to another member as its final destination without Customs duties (Andriamananjara, 2011). In this case, the Customs duties are retained by the member of duty collection but not the member of final destination. To prevent such diversion, members may retain facilities at borders with other members (i.e. internal borders), where Customs officers are able to impose Customs duties on the goods originating in non-members moved through other members (see section 3.2).

Another practical method associated with the final destination principle is that goods are transited from the first port of entry to the member of final consumption. In this case, a robust transit and guarantee system is required to avoid transit fraud. Members are primarily concerned that such transit goods would disappear without Customs duties paid. The New Computerized Transit System (NCTS), a computerized transit system based on exchanges of electronic messages, has been fully implemented among the 28 EU member states, the

four EFTA member states<sup>6</sup> and Turkey (Yasui, 2013). The EAC member states have also implemented the RADDEx system for systematic exchanges of information of transit goods (Yasui, 2011).

The two aforementioned methods associated with the final destination principle may co-exist in accordance with a trader's decision. For example, in the Mombasa port, traders are able to choose: 1) to make a transit declaration by which the goods are in transit to Uganda and pay Customs duties owed at a Customs office in Uganda for release, or 2) to make an import declaration on the goods destined for Uganda and pay Customs duties due at the URA office at the Mombasa port.

### *Origin principle*

One of the main advantages of adhering to the origin principle is that members do not have to control goods for the purposes of Customs duties once the goods enter into the Union's Customs territory. This method may function well where intra-regional trade is symmetrical among members. This is not the case, however, for a Customs Union with a large membership due to their diverse trade structure and flow. When a Customs Union includes a landlocked member, in particular, its neighbouring coastal members stand to gain additional revenue as the landlocked member is heavily reliant on its coastal neighbours for trade with non-members. As such, it is necessary to consider certain mechanisms to compensate those members who experience possible revenue loss when applying the origin principle within Customs Union systems.

One method to apply this mechanism is the creation of a pool of Customs duties which are subsequently distributed amongst members. In the SACU, for example, the collected Customs duties are transferred into a revenue pool and shared by members through an agreed formula based on each member's share of intra-SACU trade (Kieck and Maur, 2010). Vaillant and Lalanne (2007) argued that the SACU formula may be sensible where the largest member is the richest in the region because the revenue distributed to small members is considered to be development assistance from the rich member. They also suggested that the SACU formula might not be appropriate for other Customs Unions, such as the Mercosur, because the larger member is not always the wealthiest member.

In the EU, 75 percent of the Customs duties collected on trade with non-members are allocated to the EU's general budget, while the rest is retained by the member states to cover administrative costs. It means that 25 percent of the collected Customs duties are retained by the member states of duty collection, not the member states of final destination. Thus, this approach would be sustainable only when tariff revenue does not constitute a large part of members' government tax revenue (Andriamananjara, 2011).

To cite another approach, the WAEMU imposes a 1 percent tax on imported goods in addition to its CET on trade with non-members as the collective property of the Union (Mansour and Graziosi, 2013).

### *Other duties and taxes*

In addition to Customs duties, most Customs administrations are tasked with the collection of other duties and taxes such as VAT and excise taxes on imported goods, and these forms of taxation have yielded larger revenue than Customs duties in most cases (WCO, 2013). Most Customs administrations collect such duties and taxes within Customs Union systems in accordance with the final destination principle, while some adopt the origin

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<sup>6</sup> The EFTA (European Free Trade Association) member states are Iceland, Liechtenstein, Norway and Switzerland.

principle in part. In the SACU, for example, the excise duties collected on imported goods are diverted to a revenue pool and then distributed amongst members based on their gross domestic product (GDP). Nevertheless, it is desirable to adopt an overarching and universal principle and mechanism governing all types of Customs revenue in a Customs Union in order to avoid disparate systems leading to excessive administrative burden.

On the export side, there is an issue on when export duties and taxes are levied and whether VAT or other taxes are refunded when the goods cross internal borders. A survey indicated that at least 45 Customs administrations collect duties or taxes on exported goods (WCO, 2013). In addition, it showed that four Customs administrations gain more revenue from exported goods than imported goods. If a member of a Customs Union imposes export duties and taxes, the related issue of how to manage the procedures surrounding impositions and refunds in a consistent manner within Customs Union systems will become apparent.

### **3.2 Border controls and procedures**

An FTA inevitably increases the administrative burden on member Customs administrations. Member Customs administrations are tasked with the application of preferential tariff treatment, subject to claims of preferential tariff treatment supported by effective proof of origin. Origin verification is one of their important tasks. In addition, they are charged with the management of bilateral trade remedies, such as bilateral safeguard measures. Furthermore, they are required to implement trade facilitation measures imposed by the FTA. As long as such Customs procedures are aligned with international standards including the RKC and other tools developed by the WCO, however, their impact on member Customs administrations may be relatively minimal (Yasui, 2014).

#### *External borders*

Within Customs Union systems, member Customs administrations are required to apply the CET and other regulatory measures in a uniform and consistent manner on trade at the external borders. They are also required to ensure uniform application of transit procedures throughout the Union's territory. Thus, a Customs Union equips member governments with a robust driver towards the harmonisation of Customs procedures governing trade with non-members at the regional level. As is the case with FTAs, it is recommended that Customs procedures for trade with non-members at the external borders be aligned with international standards including the RKC.

#### *Internal borders*

At the internal borders of Customs Unions, no border control is allowed if free movement of goods is fully realized inside the single Customs territory. The free movement of goods presupposes the full harmonization of trade and other regulations concerning the movement of goods, including the CET applied to trade with non-members. With the free movement of goods in the Union's territory, theoretically speaking, it is no longer necessary to maintain controls or facilities at the internal borders, and accordingly the design or verification of preferential rules of origin is no longer required (Andriamananjara, 2011). For example, Customs controls and facilities at the internal land borders may be eliminated. As such, a regime involving the free movement of goods inside the Customs territory, if it is fully implemented, will have a significant impact on member Customs administrations, possibly leading to organizational restructure, regulatory reform, and reallocation of hard infrastructure and human resources, amongst others.



The EU has enabled the free circulation of goods inside the Customs territory since 1993. There is no Customs control or facility available at the internal borders. Croatia, as a consequence of its accession to the EU in 2013, amended its Customs and related laws and regulations to ensure complete alignment with the EU's commercial and trade policies, including its commodity nomenclature and tariff rates. Furthermore, it complied with the EU's conventions and agreements, including the FTAs and Customs Union agreements that the EU had concluded. Accordingly, Croatia's FTAs with Turkey and the EFTA as well as its membership in the Central European Free Trade Agreement were terminated (WTO, 2013). At borders between Croatia and other EU member states, Customs controls disappeared while police controls remain (European Commission, 2013).

In reality, however, members of most Customs Unions illustrated in the Table, especially those among developing members, continue to maintain Customs controls and facilities at the internal borders for Customs duty purposes. This is mainly due to the fact that they maintain control over certain sensitive goods not featured in the terms of the CET, and the fact that they have not fully implemented duty free treatment to the goods moving between them. Even if the CET is fully applied, they may retain Customs control at the internal border facilities to avoid fiscal leakage due to trade deflection or circumvention, that is, the entry and exit of goods moved through the territory of one member into or from another member without paying Customs duties owed (Andriamananjara, 2011). The deflection risk is reduced by Customs controls at the internal border facilities. Accordingly, member Customs administrations are required to verify the origin of goods eligible for duty free treatment at the internal borders (e.g. Mercosur), or simply to impose tariffs irrespective of the origin of goods (e.g. WAEMU).

The EU and Turkey have concluded a Customs Union agreement. At the land borders which delineate the two Customs territories, both sides currently retain Customs controls and facilities.<sup>7</sup> This is mainly because certain agricultural products as well as coal and steel products are an exception and derogation of the CET application and subject to preferential treatment. Traders are required to provide proof of origin for such goods in line with the pan-Euro-Mediterranean Protocol for preferential tariff treatment at the borders. Customs duties and quantitative restrictions are eliminated on other types of goods transported between Turkey and the EU when the goods are either wholly obtained or placed in free movement after their importation from non-members in either Customs territory. In this case, traders are required to prepare the A.TR. movement certificate to provide proof of this status in lieu of the proof of the origin of goods.

#### *Other regulatory purposes*

Internal border controls and facilities may be required for other purposes, including immigration control, VAT and excise duty collection, and enforcement of standards and health and safety regulations (Kieck and Maur, 2010). Customs staff may be physically present at internal border facilities, if such border functions are delegated to Customs. If no control or facility at the internal borders is available, and trade and other regulations concerning the movement of goods are not fully harmonized, certain adjustments are required in order to facilitate the adoption of a uniform mechanism in the Customs territory. Since VAT rates are not fully harmonized among the EU member states, an adjustment is needed to impose or refund the VAT when the goods are consumed or sold after they cross the EU's internal borders.

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<sup>7</sup> Further information on the EU-Turkey Customs Union agreement is available at: [http://ec.europa.eu/taxation\\_customs/customs/customs\\_duties/rules\\_origin/customs\\_unions/article\\_414\\_en.htm](http://ec.europa.eu/taxation_customs/customs/customs_duties/rules_origin/customs_unions/article_414_en.htm)

### **3.3 Institutional arrangements**

FTAs usually entail the establishment of committees or a follow-up mechanism, e.g. to discuss the amendment of legal provisions and to foster administrative cooperation, as well as undertaking consultations and settling disputes involving non-compliant actions committed by members. At the national level, member Customs administrations may be required to strengthen their institutional capacity and human resource structure in order to manage the increased level of administrative burden inherent to FTAs, particularly those related to the verification of the origin of goods.

#### *Supranational body*

Customs Union systems mandate the harmonization of trade, commercial and other policies and regulations throughout the territory. This harmonization entails considerable work and time. It would therefore be pragmatic to adopt an incremental approach from the establishment of a framework governing a Customs Union to fully achieving and managing a Customs Union system. It seems that all Customs Union in the Table have adopted a gradual approach to ensure the successful establishment of a single Customs territory after the agreement has entered into force. In this regard, many Customs Unions involve the creation of a supranational body, typical examples being the EU's European Commission and the EAC's Secretariat. A committee or group that specializes in Customs matters may also be established. In this regard, a Customs Union could entail significant changes for member Customs administrations, and the potential loss or delegation of the national autonomy of members, in terms of legislative powers and administrative management.

#### *Common Customs codes and regulations*

One of the potential tasks of the supranational bodies or Customs committees of Customs Unions is to develop common Customs Codes and regulations that can directly apply to members. The EU developed the Community Customs Code in 1992, and adopted the Modernised Customs Code in 2008 and the Union Customs Code in 2013. In 2003, the GCC developed the Common Customs Law, and subsequently adopted its Rules of Implementation and Explanatory Notes, all of which GCC's Customs administrations are required to implement directly. In 2004, the EAC adopted the Customs Management Act. The Mercosur agreed to the Common Customs Code in 2010, and each Mercosur member is required to incorporate it into the national Customs law to ensure implementation.

Such common legal infrastructure may serve as a basis to harmonize revenue and border management at both internal and external borders, and to ensure the uniform and consistent application of region-wide rules throughout the Customs territory. Customs administrations operating under a Customs Union system are given opportunities to improve their procedures and cooperation at the regional level.

In situations where internal border controls and facilities are required, a Customs Union could create an enabling legal framework to establish a modernized border management system and cooperation between members. They include one-stop-border posts, the systematic exchange of trade information through Customs IT systems, sharing of intelligence, regional single window systems, regional Authorized Economic Operator (AEO) systems, and transnational coordinated border management (Kieck and Maur, 2010).

It is difficult to implement such measures without sound and sustainable international legal frameworks, and thus it can be said that a Customs Union is able to provide an ideal basis for their implementation. These innovative solutions, combined with the experience and best practices associated with Customs Unions, could be put into practice at the external borders. The issue of implementing better coordinated management at the internal

borders of Customs Unions ought to be carefully considered, taking into account the possibility of abolishing border controls and facilities inside the Customs territory in the future.

#### 4. Conclusions

When a Customs Union forms, it is assumed that the roles and functions of member Customs administrations will be significantly diminished. However, this paper provides evidence to the contrary. Customs administrations operating under a Customs Union system have evolved with new roles and functions in response to the significantly altered environment. Since Customs Unions are at various stages of development and integration, the potential impact of Customs Unions on Customs administrations may vary. It is apparent, then, that Customs administrations need to be well-prepared and well-acquainted with the changes that Customs Union systems could entail.

Anecdotal evidence has shown that no single entity or region has implemented a fully-functioning Customs Union system in a short space of time. It can be said that the majority of Customs Unions currently in force are imperfect. Considering the substantial time and work involved in harmonizing trade and other regulations within Customs Union systems, a gradual approach is recommended. To this end, establishing a Customs committee or supranational body of a Customs Union to determine a region-wide strategy, develop legal frameworks, and implement measures in a harmonized and incremental fashion will be effective.

Customs Union systems are able to provide a sound and sustainable international legal basis thereby affording member Customs administrations ample opportunity to improve their procedures and cooperation at the regional level. A Customs Union essentially requires uniform implementation of Customs and other border procedures at the external borders, as well as at the internal borders if they are required. A Customs Union could effectively harmonize Customs procedures at the regional level if they are aligned with international standards, in particular the RKC. To this end, it is highly recommended that a Customs Union, in addition to members, accede to the RKC and implement the RKC and other tools developed by the WCO.

Internal border controls and facilities will be eliminated once a regime involving the free movement of goods is realized within a Customs Union system. In this case, it is no longer necessary to design preferential rules of origin inside the Customs territory. Practically speaking, however, members in the majority of Customs Unions retain, and are likely to continue to retain such internal controls and facilities for the time being for various reasons. In terms of regional economic integration, Customs Unions are a more advanced and enhanced version of FTAs. It is thought that Customs administrations operating under Customs Union systems are provided with ample opportunity to implement innovative solutions and best practices for border controls, procedures and management with a sound and sustainable legal basis that Customs Union systems may provide.

Last but not least, it is important to share practices and experiences in a transparent fashion on members' progress *vis-à-vis* the implementation of the requirements inherent to Customs Unions. Considering the limited number of Customs Unions in force and the fact that the majority are at the early stages of development, the establishment of an information sharing mechanism is advisable, particularly with regard to Customs revenue management, border controls and procedures, and institutional arrangements to support the effective implementation of Customs Union systems.

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