

## **PROSPECTS OF ESTABLISHING EU-US FREE TRADE ZONE IN THE CONTEXT OF CURRENT LEVEL OF TRADE FLOW AND TARIFFS**

### **Introduction**

The latest economic crisis became an inspiration to search for new solutions that would give a significant impulse to the global economy. The return to the initiative of the transatlantic partnership is one of the ideas that aim at overcoming the crisis. The concept, which is not new, is based on the conviction that the United States and the European Union will continue to play substantial roles in the global economy for a long time. Despite the crisis, the US and EU remain for each other the most significant partners. The value of the transatlantic economy as a whole accounts for 50% of the global GDP and 41% of the global purchasing power<sup>1</sup>. The share of both parties in the areas of the exchange of commodity, service, finance and investment is significant. Thus, the project has great potentials and is soundly based. However, one should have in mind basic discrepancies in the audiovisual area, agriculture and public orders, especially in defense industries.

The aim of the paper is to analyze and evaluate the initial state of the EU-US relationships as regards trade and tariffs. Moreover, the article presents briefly the history of the hitherto activities for the sake of the integration of the transatlantic market.

### **1. Transatlantic Trade and Investment Partnership (TTIP) as a symptom of integration processes in the present-day world.**

The trend to establish integration partnerships is very common at present. Thus, the idea of a free trade zone between EU and US is not exceptional on the global scale. The WTO informs that it was notified of 546 regional trade agreements signed till the 10<sup>th</sup> January 2013,

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<sup>1</sup> D. S. Hamilton , J. P. Quinlan, *The transatlantic economy 2013. Annual survey of jobs, trade and investment between the United States and Europe*, Center for Transatlantic Relations, <http://transatlantic.sais-jhu.edu> (Accessed: 05.07.13).

out of which 354 came into force<sup>2</sup>. Consequently, it can be assumed that integration processes constitute a dominating trend in the international trade and economic relationships.

It should also be pointed out that integration is now perceived as a process that overcomes differences between economies of countries and regions and results in a gradual elimination of any symptoms of discrimination in commodity exchange.<sup>3</sup> It results in the creation of a relatively constant structure of various links between the integrating countries (regions) and their economies. Integration assists the development of specializations and a further division of labor. Initially, it usually indicates a mutual decrease of customs duty on imported goods. Then, the integration may be – and in some cases it is – extended. The European Economic Community, which in a couple dozens of years evolved into the EU, can serve as an example. B. Balassa provides five stages of integration of independent territories: the creation of a free trade area, a customs union, a common market, an economic union and a complete integration. Thus, the creation of a free trade zone constitutes the first step to integration. It should be noted that this process is usually perceived as a positive phenomenon. That assumption is based on the commonly accepted theory of comparative advantage, according to which free trade is always more effective than protectionism<sup>4</sup>. This is due to the specialization in the production and exports of the goods whose manufacturing costs are the lowest in a given country. The usual objective of economic integration is to have an easier access to new markets, technologies and other resources, which should result in the increase of security and the power to influence the economies of other countries and regions<sup>5</sup>. The supporters of integration can see several advantages that it brings to the area of economy. Among them are the economy of scale benefits resulting from the concentration of production, an improved allocation of resources, an increase of competitiveness and effectiveness, the exchange of knowledge and technologies, the rise in investments and employment and also the improvement in the area of the quality of law<sup>6</sup>. As a result, in the short term the value of mutual exchange between countries increases, and in the long term, the GDP goes up.

The creation of free trade zones has been provided for within the framework of the WTO system<sup>7</sup>. Article XXIV of the General Agreement on Tariffs and Trade (GATT) and the

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<sup>2</sup> [www.WTO.org/english/tratop\\_e/region\\_.htm](http://www.WTO.org/english/tratop_e/region_.htm) (Accessed: 05.07.13)

<sup>3</sup> B. Balassa, *The Theory of Economic Integration*, Allen & Urwin, London 1961, p. 15.

<sup>4</sup> W. F. Samuelson, S.G. Marks, *Ekonomia menedżerska*, PWE, Warszawa 1998, pp. 455-463.

<sup>5</sup> A. Budnikowski, *Międzynarodowe stosunki gospodarcze*, PWE, Warszawa 2006, pp.260.

<sup>6</sup> J. Milleville, *Wpływ integracji ekonomicznej na handel ugrupowania regionalnego na przykładzie Unii Europejskiej*, Barometr Regionalny, 2009, No. 2(16), p.57.

<sup>7</sup> General Agreement on Tariffs and Trade whose tasks were taken over by WTO in 1995.

Understanding of the Interpretation of Article XXIV of GATT permit the creation of three types of regional trade agreements: customs unions, free trade areas and provisional treaties that lead to the formation of a customs union or a free-trade area<sup>8</sup>. Thus, the creation of a US-EU free-trade area is in line with the WTO principles. It should be pointed out, that the notion of a *free-trade area* refers to a territory where both customs duties and non-customs trade barriers between member states have been eliminated. Free-trade agreements do not restrict the freedom of member states to shape their trading policies with third countries. Consequently, countries that belong to the area, maintain separate tariffs.

The issue of creating a US-EU free-trade area emerged already in 1990s<sup>9</sup>. In 1995 a document called *New Transatlantic Agenda (NTA)* was signed in Madrid, followed by the *Joint EU-US Action Plan* which included a list of approximately 150 topics of mutual relationships that required detailed negotiations. Moreover, a forum of co-operation - the *Transatlantic Economic Partnership (TEP)* was launched in 1998. The idea of the liberalization of trade between US and EU returned on the initiative of the German Presidency during the summit in Washington. One of the issues discussed during the talks was the creation of the Transatlantic Free Trade Association (TAFTA). A *High Level Working Group* was established, which outlined a preliminary range of areas that would be included in the future agreement. They included<sup>10</sup>:

- Elimination or reduction of conventional barriers to trade, such as tariffs and tariff-rate quotas.
- Elimination, reduction, or prevention of barriers to trade in goods, services, and investment.
- Opportunities for enhancing the compatibility of regulations and standards.
- Elimination, reduction, or prevention of unnecessary “behind the border” non-tariff barriers to trade in all categories.
- Enhanced cooperation for the development of rules and principles on global issues of common concern .

However, further five years were necessary for any progress in this field and as late as in February 2013, the US and EU informed about their intention to negotiate an agreement that

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<sup>8</sup> R.R. Ludwikowski, *Handel międzynarodowy z wyborem źródeł*, C.H.Beck, Warszawa 2009, p.182-183.

<sup>9</sup> A. Gradziuk, *Szanse i przeszkody w realizacji projektu TAFTA*, Biuletyn Polskiego Instytutu Spraw Międzynarodowych, No. 20 (434), 19 April 2007, pp. 1769-1770, [www.pism.pl/biuletyn](http://www.pism.pl/biuletyn).

<sup>10</sup> Interim Report to Leaders from the Co-Chairs EU-US High Level Working Group on Jobs and Growth, June 19, 2012, [www.ustr.gov/about-us/press-office/reports-and-publications](http://www.ustr.gov/about-us/press-office/reports-and-publications), (Accessed: 10.05.2012).

would regulate mutual economic relationships<sup>11</sup>. It should be pointed out that the new initiative under the name of *the Transatlantic Trade and Investment Partnership (TTIP)* is something more than a mere attempt to launch a free-trade area. It is intended to be an “economic NATO”, which will take over from the WTO the role of a leader in liberalizing the world trade and will help resist the growing economic power of the BRIC group (Brazil, Russia, India and China)<sup>12</sup>.

## 2. The initial state of the EU –US trade relationships

In May 2013, the EU-US agreement was discussed by the European Parliament, whose resolution defined a list of negotiation priorities<sup>13</sup>. First of all, the EP stressed the fact that US are the main EU trading partner. In 2012, their share in the EU exports and imports accounted for 17.3% and 11.5%, respectively [table 1]. The current integration level of both areas is testified by the value of daily trade transactions (as regards commodity and services) which amounts to 2 billion EUR and the value of mutual investments, which amounted to over 2.394 billion EUR in 2011. According to the EP, these figures are a good start for further integration.

Table 1. Main EU trade partners (27) in 2012 (in M Euros)

State	Value	Share %	EU exports	Share %	EU imports	Share %
United States	497.658	14,3	291.880	17,3	205.778	11,5
China	433.789	12,5	143.878	8,5	289.915	16,2
Russia	336.474	9,7	123.262	7,3	213.212	11,9
Switzerland	237.885	6,8	133.341	7,9	104.544	5,8
Norway	150.258	4,3	49.821	3,0	100.437	5,6
Turkey	122.961	3,5	75.172	4,5	47.789	2,7
Japan	119.303	3,4	55.490	3,3	63.813	3,6
Brazil	76.685	2,2	39.595	2,3	37.090	2,1
India	75.764	2,2	38.468	2,3	37.295	2,1
South Korea	75.624	2,2	37.763	2,2	37.861	2,1

Source: Author’s elaboration based on DG TRADE Statistics<sup>14</sup>

In 2012, the value of trade between EU and US was over 497 billion EUR, which accounts for approx. 1/3 of the global trade value. In the time of the economic crisis of 2008-

<sup>11</sup> M. Rostowska, *Porozumienie o wolnym handlu UE –USA a doświadczenia negocjacji Jednolitego Aktu Europejskiego*, Biuletyn Polskiego Instytutu Spraw Międzynarodowych, No. 33 (1009), 3 April 2013, pp. 1-2, [www.pism.pl/biuletyn](http://www.pism.pl/biuletyn).

<sup>12</sup> A. Łojewska, *Powstaje drugie NATO*, Rzeczpospolita, 13.06.2013, p. A8.

<sup>13</sup> European Parliament resolution of 23 May 2013 on EU trade and investment negotiations with the United States of America, [www.europarl.europa.eu](http://www.europarl.europa.eu).

<sup>14</sup> <http://trade.ec.europa.eu/doclib/docs/2006/september> (Accessed: 23.05.2013)

2012, the imports from EU to US in comparison to the preceding year decreased only in 2009 (-15%), while in other years there was always an increase of the trade value. In 2012, its value amounted to over 205 billion EUR. As regards the exports, there was a decrease by 4.5% and 17.8% in 2008 and 2009, respectively. However, it should be emphasized that in 2008-2012 the trade value increased from 430.168 million EUR to 497.658 million EUR [table 2]. In the whole period, EU had a positive trade balance.

**Table 2. EU (27) – US trade (in M EUR)**

Period	EU imports	Change (%)	EU exports	Change (%)	Balance	Value
2008	182.351	3,0	247.818	-4,5	65.467	430.168
2009	154.858	-15,1	203.589	-17,8	48.731	358.446
2010	173.067	11,8	242.451	19,1	69.385	415.518
2011	191.515	10,7	263.791	8,8	72.276	455.306
2012	205.778	7,4	291.880	10,6	86.102	497.658

Source: Author's elaboration based on DG TRADE Statistics<sup>15</sup>

According to the figures presented by the European Commission, the expected benefits of a further integration of the both great economies could annually bring to EU and the USA 119.2 billion and 94.4 billion EUR, respectively, at the EU global exports growth by 6% and by as much as 28% with regard to US only<sup>16</sup>. The European Parliament determined a dozen or so detailed issues that should undergo negotiations and, subsequently, be regulated in a future trade and investment agreement<sup>17</sup>.

The most significant ones are as follows:

- access for foods and services,
- improvement of opportunities for EU investments in the US
- access to public procurement in US,
- improvement of the compatibility of regulatory regimes, particularly health, safety and environmental protection,
- reducing non-tariff barriers such as customs procedures, technical standards and other regulatory restrictions
- reducing costs and administrative delays stemming from regulation,
- acceptance of common approaches to global trade and trade-related issues,
- protection of precisely and clearly defined areas of intellectual property rights,

<sup>15</sup> <http://trade.ec.europa.eu/doclib/docs/2006/september> (Accessed: 23.05.2013)

<sup>16</sup> European Parliament resolution of 23 May, op. cit.

<sup>17</sup> Ibid.

- information sharing regarding market surveillance and elimination of counterfeit products,
- protection of personal data, which is a rule in EU but not in the US,
- harmonization of labor market regulations and standards,
- liberalization of trade in the agricultural sector, in which EU is against a complete liberalization of GMO production and trading,
- convergence towards common financial regulatory framework,
- elimination of restrictions on maritime and air transport services.

Moreover, the European Parliament called for cultural and linguistic protection in the audiovisual and cultural services sector. That indicates the endeavor to limit the freedom of competition in this area and probably results from the fears against the domination of the American film and music industries on the European market.

### **3. Characteristics of trade between EU and the USA**

Both EU and the United States are the members of the WTO and, consequently, in their international trade operations they apply commodity classification based on the Harmonized Commodity Description and Coding System (HS), which is administered by an agenda of the WTO, the WTC. In the HS, all products are assigned 6-digit levels that can be extended in national tariffs. The HS is organized into 21 sections and 99 chapters. Such arrangements makes it possible to compare customs duties in various tariffs, in relations to commodities of the same type.

Table 3 presents figures regarding the value of the trade exchange between EU and the US by particular commodity groups referring to appropriate sections of the HS classification. It also includes the information on the share of the imports and exports of products from a given group in the total value of the EU imports and exports (to/from the USA). The main commodities in the EU exports are as follows:

- machines and mechanical appliances classified in section XVI (24.8%)<sup>18</sup>;
- products of chemical and allied industries – 21.5% (section VI); this group of products includes also chemicals, pharmaceutical products, fertilizers, tanning and dyeing extracts, cosmetics and toilet preparations, soap and washing preparations, glues, enzymes, explosives and pyrotechnic products;
- vehicles, aircraft and vessels (section XVII, 15.8%);

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<sup>18</sup> In brackets given is their share in the total imports/exports. Cf table 3.

- optical, photographic, measuring, checking, precision, medical instruments and apparatus (section XVIII, 7.1%);
- mineral products, including ores and mineral fuels (section V, 6.7%);
- base metals and articles of base metal (section XV, 5.7%);
- food and beverages, tobacco (section IV, 3.8%);
- plastics, rubber and articles thereof (section VII, 2.9%)

**Table 3. EU – US trade structure in 2012 (in M EUR)**

HS section number	commodity	Imports to UE	Share (%)	Exports from UE	Share (%)
Section I (chapters 01-05)	live animals; animal products	1.180	0,6	1.538	0,5
Section II (chapters 06 -14)	vegetable products	3.771	1,8	1.721	0,6
Section III (chapter 15)	animals or vegetable fats and oils	355	0,2	756	0,3
Section IV (chapters 16-24)	food and beverages, tobacco	3.212	1,6	10.978	3,8
Section V (chapters 25-27)	mineral products	21.566	10,5	19.687	6,7
Section VI (chapters 28-38)	products of chemical and allied industries	39.612	19,2	62.792	21,5
Section VII (chapters 39-40)	plastics, rubber and articles thereof	7.408	3,6	8.340	2,9
Section VIII (chapters 41-43)	raw hides and skins [...] articles thereof; [...]	429	0,2	1.609	0,6
Section IX (chapters 44-46)	wood and articles of wood; [...]	834	0,4	731	0,3
Section X (chapters 47-49)	[...] paper or paperboard, articles thereof	3.648	1,8	2.739	0,9
Section XI (chapters 50-63)	textile and textile articles	1.471	0,7	4.328	1,5
Section XII (chapters 64-67)	footwear, headgear, umbrellas, [...]	113	0,1	1.259	0,4
Section XIII (chapters 68-70)	articles of stone, plaster, cement, [...] glass and glassware	1.527	0,7	3.138	1,1
Section XIV (chapter 71)	pearls, [...] precious stones, [...] coins	9.736	4,7	4.744	1,6
Section XV (chapters 72-83)	base metals and articles of base metal	7.283	3,5	16.578	5,7
Section XVI (chapters 84-85)	machinery and mechanical appliances [...]	52.436	25,5	72.457	24,8
Section XVII (chapters 86-89)	vehicles, aircraft, vessels [...]	24.474	11,9	46.141	15,8
Section XVIII (chapters 90-92)	optical, photographic, cinematographic, measuring, checking, precision, medical instruments and apparatus [...]	19.351	9,4	20.786	7,1
Section XIX (chapter 93)	arms and ammunition, parts and accessories thereof	163	0,1	717	0,2
Section XX (chapters 94-96)	miscellaneous manufactured articles (furniture, lamps, toys)	1.523	0,7	3.512	1,2
Section XXI (chapter 97)	works of art., collectors' pieces and antiques	2.284	1,1	2.559	0,9

Source: Author's elaboration based on DG TRADE Statistics<sup>19</sup>

<sup>19</sup> <http://trade.ec.europa.eu/doclib/docs/2006/september> (accessed: 23.05.2013)

It should be pointed out that in fact the dominating role in the imports to EU is played by the same commodity groups, i.e. machines and mechanical appliances (25.5%), products of chemical industry (19.2%), aircraft and vessels (11.9%), mineral products (10.5%), optical, measuring, precision, checking and medical instruments and apparatus (9.4%) and plastics (3.6%). That shows that the intensity of the mutual trade exchange within the same commodity groups remains almost the same.

In 2012, the value of the Polish trade exchange with the USA exceeded 6.7 billion EUR, with the value of the exports amounting to 2.8 billion EUR<sup>20</sup>. The main exports items of Poland are:

- products of electric al engineering industry (1.6 billion Euro);
- products of chemical industry (252 million Euro);
- food and agricultural products (252 million Euro);
- miscellaneous products, mainly furniture (250 million Euro);
- metallurgical products (186 million Euro).

#### **4. Customs rates in EU and the USA tariffs**

In both tariffs the customs duties are dominated by *at valorem rates*, i.e. they are calculated as the percentage of the customs value. In some cases rates are determined by a fixed amount to be paid (expressed in EUR or USD) for a unit of mass, volume or other measure of the product quantity. There are also combined rates, calculated both on the product quantity/volume and the percentage of the value.

##### **4.1 EU tariff**

In 2013, the EU tariff rates for the imported products (also from the USA) are substantially diversified<sup>21</sup>. Relatively high rates are imposed on agricultural products and their preparations, which results from the EU policy of protecting the agricultural market within the framework of the so called common agricultural policy. For example, beef and some kinds of pork are classified in section I of the EU tariff, which covers live animals and products thereof that are charged at 12.8%+176.8 EUR per 100kg and 86.9 EUR per 100 kg,

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<sup>20</sup> From Ministry of Economy, [www.mg.gov.pl/node/17675](http://www.mg.gov.pl/node/17675), (Accessed: 14.02.2013).

<sup>21</sup> Cf. TARIC, [http://ec.europa.eu/taxation\\_customs/dds2/taric/taric\\_consultations.jsp](http://ec.europa.eu/taxation_customs/dds2/taric/taric_consultations.jsp).

respectively. It should be pointed out, that in the first case it is a combined rate that considers both the customs value of the product and, additionally, the amount of the product, while in the second case, the rate is determined by the amount only. Such a solution ensures that to a large degree (or even completely) the value of the customs duty will not be vulnerable to a low transaction value. Vegetable products such as vegetable and fruit, which are covered by section II of the tariff are usually rated at a few or a dozen or so percent. However, in the case of fruit, an additional quantitative rate of duty is applied at a few or dozen or so euros per 100 kg. Duty rates for several products that are classified in section II of the EU tariff, are based on the system of entry prices, where the rates depend on the commodity price at the moment of entering the EU customs area<sup>22</sup>. For example, between January 1 and March 31 the customs rate for oranges imported at prices in the range 34.7-35.4 EUR per 100 kg was 16% + 0,7 euro/100 kg. Apples can serve as another example. Between August 1 – December 31, the customs duty on apples was 11.2% + 2.7 EUR/100kg in the cases when the price was not lower than 43 EUR/100kg and did not exceed 43.5 EUR/100kg. Thus, the EU tariff system in the sector of fruit and vegetables is rather complicated and the rates themselves are relatively high. Among the vegetable products, cereals have the highest customs duties. Here, quantitative rates are applied at several dozen up to a hundred and several dozen EUR/ton. Within the WTO, EU committed itself to apply its duties at the level that would not allow the imported goods to exceed the value of the intervention price +55% on the European market. Other food products are classified in sections 3 and 4. Duty on animal or vegetable fats and oils is levied at a few to a dozen or so percent. The rates for preparations of meat are about a dozen percent or so, and in some cases a fixed amount of duty is determined per the volume of the product. For example, the customs rates for fish are 20% and more, while for sausages and ham are 100.5 EUR/100 kg and 156.8 EUR/100kg, respectively. Particularly high customs duties are levied in the sugar sector (products classified in section IV). For example, the rate for refined cane sugar is 41.9 EUR/100kg. In the case of alcohol-free candies the rate is 8.3% of the value + the amount calculated with the application of the so called Agricultural Element (AE), which is based on the product contents of milk fat and protein, saccharose/inverted sugar/isoglucose and starch/glucose. The maximum value of customs duty on sugar-containing products is 18.7 + the amount of the additional duty on sugar (AD S/Z) that is calculated in accordance to the table enclosed to the customs tariff. In this case a tariff quota is applicable with a lower rate of 43%, which was negotiated within the WTO. In

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<sup>22</sup> Commission Regulation (EC) No. 1580/2007 of 21 December 2007 and Commission Implementing Regulation (EU) No. 543/2011 of 7 June 2011, Title IV.

the case of alcoholic beverages, duty is levied on wines, while stronger alcohols like gin, vodka, whisky and also beer are not leviable. Customs duty is also levied on tobacco and tobacco products. In the case of “other tobacco”, the rate is 11.2% of the customs value of minimum 22 EUR/maximum 56 EUR/100kg.

Relatively high duties are imposed on foods classified in sections I – IV, i.e. agricultural and food products. As regards industrial products, the situation is different. For example, with few exceptions, there is no duty imposed on such mineral products as salt, sulfur, ores and mineral fuels from section V. The exception is in the case of petrol and diesel oils with the rate of 4.7%. Similarly, duty of a few percent is imposed on the products of chemical and related industries that are classified in section VI (most frequently 5.5-6.5%), but in many cases there is no duty here. Pharmaceutical products classified in chapter 30 of section I may serve as an example. The products classified in section VII, i.e. plastics, rubber and articles thereof have low customs rates. Most product codes have the rate of 6.5%, and some of them have a zero rate of duty. The rates for raw hides and skins, etc. (section VIII) are in the range 0-6.5%, e.g. for fur-skins the rate is maximum 3.7%. Slightly higher duty is imposed on such leather products as saddlery and harness, travel goods and handbags (from 1.7% to as much as 9.7%). The rates for the products of wood and paper industries (classified in sections IX and X) are within 0-10%; and paper and books can be imported without duty. The textiles and textile products, including the clothes classified in section XI, have various rates ranging from 0 – 12%. In the case of footwear, headgear, umbrellas and the like, the duty ranges from 1.7-17%. The duty on other manufactured products is on similar level. The average duty in this group of products amounts to a few percent. For the remaining commodity the rates are as follows:

- section XIII – plaster, cement, stone (0-3.7%), ceramic products (0-12%), glass (0-11%),
- section XIV – pearls, precious stones, jewelry (0-4%),
- section XV - base metals (0-10%),
- section XVI – machinery and mechanical appliances, electrical equipment (0-14%; many items in the range of 2-4%),
- section XVII – vehicles, aircraft, vessels (0-22%),
- section XVIII – optical, measuring, checking, medical instruments and apparatus, clocks, musical instruments (0-6.7%),

- section XIX – arms and ammunition (0-3.2%),
- section XX – furniture, lamps, toys, other manufactured articles (0-10.5%),
- section XXI – works of art, collectors' pieces and antiques (0%).

## 4.2 US tariff

In the US customs tariff the stress as regards the value of the rates is laid slightly differently<sup>23</sup>. The duty imposed on animal products classified in section I is rather insignificant and ranges between 0% to 4.8%. Among other things, fish can be imported without any duty. However, in some cases a fixed amount of duty is applied instead of an ad valorem duty. For example, the rates for various kinds of meat usually amount to a few cents/kg. For an insignificant number of items a high rate of 26.4% is applied. In section II (vegetable products) rates are in the range of 0% to as much as 29.8%. However, there are significantly more commodity items with a duty of around a dozen percent or so. On several products in this section a fixed amount of duty is imposed instead of an ad valorem duty. They include vegetables, fruit and cereals. In this case cereals have a duty of a few or a dozen or so cents/kg. The duty on animal and vegetable fats and oils classified in section III is in the range of 0- 19.1%. However, in the case of a significant number of items, the rates are in the range of a fixed amount of 0.43 – 34.2 cents/kg. In the case of products in section IV (prepared foodstuffs), fixed amounts of duty are applied. For example, the duty on sugars and sugar confectionery varies from a few percent of the value to amounts like 37.74 cents/kg. Similarly, the ad valorem duty on cocoa and cocoa preparations is 0-10%, while a combined duty may amount to 52.8 cents/kg+4.3%. The domination of fixed amount and combined duties in section IV is the sign of the will to impose duty irrespective of the customs value. In the case of cereals, the ad valorem rates range from 0-17.5%, while a maximum combined rate amounts to 1.035 USD/kg+14.9%. Fruit and vegetable preparations have rates ranging from a few to a dozen or so percent or from 1.5 – 7 cents/kg. Strong spirits are generally duty-free. The duty imposed on weaker alcohols amounts from a few to a dozen or so cents/liter plus additionally an ad valorem duty. Similarly, tobacco and tobacco products have high, either ad valorem or combined - fixed amount and ad valorem duties amounting to as much as a few hundred percent of the value.

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<sup>23</sup> Por.: [www.usitc.gov/tata/hts/bychapter](http://www.usitc.gov/tata/hts/bychapter), (23.06.13).

From the above figures it is visible that in the US tariff – as in the case of the EU tariff - relatively high customs duties are imposed on agricultural goods. Lower rates are imposed on other commodity groups. Mineral products from section V may serve as a good example. The groups includes – among others – salt, sulfur, plaster and cement. In most cases the rates range from 0 – 5%. In few cases, apart from an ad valorem duty, a fixed amount duty is imposed. Ores are duty-free, while in the case of the products in the group of mineral fuels duties range from 0% to 52.5 cents/barrel (158.98 liters in the temperature of 15.6°C). For example the duty on petrols and medium oils is from 10.5 – 52.5 cents/barrel. On products of the chemical industry (section VI) duties are within 0-6.5%. However, pharmaceuticals and fertilizers – with few exceptions – are duty-free.

Duty on rubber and products thereof (section VII) range from 0-8%, while plastics from 0-6.5%. The rates for raw hides, skins and fur-skins (section VIII) are in the range of 0-6.5%, and only on some products made of leather, particularly travel bags, handbags and saddlery and harness duty is higher (0-20%). Moreover, in the case of few items, fixed amount of duty is applied. Duty is not imposed on the majority of articles of wood, paper and paperboard (sections IX and X). The few ones where duty is imposed, e.g. plywood, have the rate of 8%. The duty on textile and textile articles, including clothes ranges from 0-32%. The duty on footwear (section XII) is generally high and ranges from 0-48% plus additionally a fixed amount duty is imposed on some items. The duty on products in section XIII, which covers articles of stone, plaster, cement, ceramic products and glass in most cases does not exceed 10%; however, in particular cases it may amount up to 38%. The duty on products classified in section XIV, i.e. pearls, precious stones, metals clad with precious metals ranges from 0-10.5%. In the case of base metals and articles of base metals it is 0-15%. However, the majority of the items in this section is within the range of 0-5% and the duty in the case of cast iron and steel is zero percent

The rate for machinery and mechanical appliances, electrical and electronic equipment (section XVI) is usually 0%. However, the duty on some of the items from section XVI may amount to as much as 9.9%. The duty rates on cars, aircraft, vessels and rail vehicles are varied and amount to 14%, while in the case of non-rail vehicles they may reach even 25%. The duty imposed on passenger automobiles and trucks is 2.5% and 25%, respectively, while in the case of aircraft and vessels it does not exceed 3%. The rates for optical, measuring, checking and precision instruments and apparatus (section XVIII) range from 0 to a dozen or so percent. For example, the duty on watt-hour meters is 16 cents/piece + 1.5% of the customs value; while the duty on electrically-operated watches with mechanical indicators is 44 cents/

case + 6% on each box and 15%/strap or bracelet and 5.35%/battery. The maximum rate for musical instruments (section XVIII) is 8.7%, for furniture (section XX) – 12.8%. For toys and sports articles (section XX), the maximum rate is 9.2% . Only some articles covered by section XIX (arms and ammunition) have duty rates, sometimes they are as high as 20%. However, no duty is imposed on works of art, collectors' pieces and antiques.

## Conclusion

The plan to enhance the cooperation between EU and the USA has its long history. Consequently, the mutual expectations and fears are well understood by both parties. Moreover, the pressure to overcome the results of the crisis by a clear pro-development impulse is significant in present situation. Such a situation creates solid foundations for making political decisions. What is more, there are circumstances whose existence has been proved by the above analysis. Firstly, it should be pointed out that the agreement in question is meant to cover a substantially wider field than a mere trade exchange. The catalogue of potential arrangements is fairly wide and exceeds the framework of a free-trade agreement. Secondly, the customs duties in the EU and US tariffs are not as low as one might think. Thus, a sheer reduction of rates will have some significance, especially if it covers the commodity groups with the highest rates and the most significant trade volume.

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### ***Abstract***

The aim of the article is to assess the initial state of the EU – US relationships as regards the level of trade exchange and the value of applicable customs duties. The author outlines the hitherto attempts to integrate economically the transatlantic region and analyzes in detail the level of mutual trade flow and the values of customs duties imposed on particular commodity groups.