INSIGHTS FOR IMPROVING INTERNATIONAL TRADE EFFICIENCY THROUGH EU CUSTOMS TAXATION POLICY

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Summary

The European Union's customs taxation policy is significant for balancing economic stability, market protection, and trade facilitation. As a customs union, the European Union implements the unified policy and applies the external tariff on imports from non-EU countries, allowing goods to move freely between member states. This policy focuses on principles of neutrality, simplicity, and fairness, using tools such as VAT, customs duties, and excise taxes to collect revenue and regulate trade. Additionally, customs taxation fulfils regulatory, protective, and fiscal functions, impacting international trade by managing goods movement, shielding local industries, and generating public funds. Recommendations for improving European Union customs policy include harmonizing tariffs, streamlining customs procedures, and enhancing digital integration. Reducing tariff disparities and embracing technology would simplify trade, cut costs, and increase transparency. This modernization would enable the European Union to respond better to global trade dynamics, fostering long-term economic growth. The upcoming Carbon Border Adjustment Mechanism will further integrate environmental goals into the tax framework, enhancing the European Union's role in sustainable trade. Overall, a reformed and digitized European Union customs system could strengthen the Union's competitiveness, making it a stronger player in the international trade landscape while supporting both European Union level initiatives and member state priorities.

***Keywords**:* European Union, international trade, taxation; customs taxation

Introduction

International trade is one of the most important pillars while reviewing the global economics and its growth. The efficiency of the trade is determined by customs taxation policies which are implemented. In the European Union, customs taxes are not only the part of the revenue but also the tool which can be used to ease or to burden the international trade. The customs taxation policies of the European Union are focusing on simplifying the trade, ensuring the revenue collection and protecting the market. Nevertheless, there is the concern regarding the effectiveness of these custom taxation policies and how they can be improved.

Thus, the **research object** of this article is customs taxation policy.

The aim of this article is to analyse how the European Union taxation policy affects the efficiency of trade flows in international trade.

The following **objectives** have been set to achieve the aim:

1. To analyse the situation of the European Union customs taxation policy in international trade.
2. To identify the concept of customs taxation and its impact on the flow of international trade.
3. To propose ways to improve the efficiency of international trade by improving EU customs taxation policy.

Research methods applied are analysis and interpretation of statistical data collected from the database, analysis and synthesis of scientific literature, generalization and comparison. By analysing the existing situation of the European Union customs taxation policy, identifying the taxation impact on the international trade, this article will provide insights into how the European Union can improve its customs taxation practices to promote more efficient international trade.

The European Union's Customs Taxation Policy in International Trade

The European Union customs taxation policy plays an important role in international trade, ensuring the simplified movement of goods while at the same time protecting the European Union's internal market and citizens. The European Union operates as a customs union, that means that all member states must apply a common external tariff on goods which are imported from non-European Union countries, while goods move freely between member states without any customs duties. The taxation policy is based on neutrality, efficiency, certainty and simplicity, effectiveness and fairness, flexibility and equity (OECD, 2014.) All those principles are implemented in the European Customs taxation policy as well. In order to comply with those principles European Union has made legal frameworks and regulations. These laws define the functioning of the European Customs Union, customs procedures, duties, and trade defence instruments. Below is an overview of the main legal instruments which are shaping the legal framework of the European Customs Union:

1. Union Customs Code is the primary legal framework which regulates customs operations across the European Union. It defines how customs duties are charged, how goods are imported and exported, and outlines procedures for the movement of goods within and outside the European Union (Union Customs Code, n.d.).

2. Commission Delegated Regulation (EU) 2015/2446. This regulation provides detailed rules for the implementation of the Union Customs Code, specifying customs procedures, requirements for simplified declarations, and conditions for special customs regimes (Commission regulation (EU) 2015/2446, 2015).
3. Commission Implementing Regulation (EU) 2015/2447. This regulation outlines how customs authorities should apply the Union Customs Code in practice, providing the operational details and procedures for customs processing (Commission Implementing Regulation (EU) 2015/2447, 2015).
4. Common Customs Tariff (CCT). The European Union Common Customs Tariff applies the tariff rates on imports from non-European Union countries and ensures that all member states impose the same duties on imports from outside the European Union (Council Regulation (EEC) No 2658/87, 1987).
5. Treaty on the Functioning of the European Union (TFEU). The Treaty on the Functioning of the European Union contains key provisions on the functioning of the customs union. Mainly the articles 28-37 which establish the legal basis for the customs union, the Common Customs Tariff, and related trade policies (Treaty on the Functioning of the European Union, n.d.).
6. Anti-Dumping and Trade Defence Regulations. The European Union also applies trade defence instruments, such as anti-dumping and anti-subsidy duties, to protect its industries from unfair trade practices. These measures are regulated by specific laws (Anti-dumping measures, n.d.).

These laws and regulations form the main pillars of the European Union's customs taxation policy, defining how customs duties are applied, collected, and managed. They provide the uniting approach which is applied in all member states. At the same time, it also eases the functioning of the European Union's Customs Union.
The variety of the laws and regulations needed for of the European Union’s taxation policy does not surprise when we are seeing the actual numbers of the statistical import value, that is the amount that would be invoiced in the event of sale or purchase at the national border of the reporting country. Below is the table showing the statistical import value based on which the customs taxes were collected by European Union’s member states in 2022 and 2023 (see Table1).

Table 1. European Union’s statistical data for import tax value for 2022 and 2023 (Source: Created by author based on Access2Markets database)

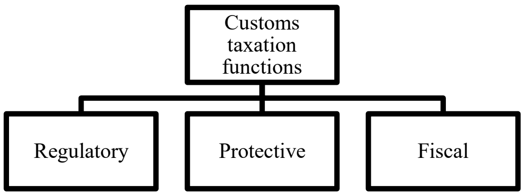
Partners	Import Value to the EU/MS (EURO) 2022	Import Value to the EU/MS (EURO) 2023	Change %
Germany	880 250 869 886	860 131 737 449	-2.29
Netherlands	585 121 453 925	553 628 272 179	-5.38
Belgium	365 551 086 466	345 223 909 454	-5.56
Italy	316 452 103 571	306 827 094 277	-3.04
Spain	239 608 938 328	236 207 220 925	-1.42

Table 1 shows the statistical value, that is the value that would be showed on the invoices in the event of sale or purchase at the national border of the reporting country when the goods enter the European Union’s territory. For this analysis only 5 top countries were selected – decision made with reference to the worth of the import value. The Table 1 also represents the data of the change of the import value from 2022 to 2023. Since the change for the selected 5 countries is negative – it can be stated that the worth of the import value is decreasing and this means that less taxes are collected. Based on the values given in the Table 1 customs taxes are calculated. Taxes collected by customs in the European Union are primarily divided between two main categories: Value Added Tax (VAT) and customs duties. VAT is an indirect tax applied on the value added to goods and services at each stage of production and distribution. It is collected by VAT-registered businesses from their customers and then deducted by these businesses for the VAT they have already paid on inputs. The final amount collected goes to national tax authorities within EU Member States (How does VAT work?, n.d.). Customs duties are charged on goods imported into the European Union and are collected by customs authorities at the point of entry into the European Union’s Member State. These duties can vary depending on the type of good being imported and are paid along with import VAT when applicable. Approximately 75% of customs duties collected on trade with non-European Union countries are designated to the European Union's general budget, while the rest is maintained by the Member States for their own use (Customs duties, n.d.). In 2023, the European Union imported goods valued at approximately 3,060 billion euros. From these imports, customs duties collected amounted to 28.2 billion euros. Of this sum, 21.2 billion euros were allocated to the European Union’s general budget, reflecting the European Union’s policy of contributing around 75% of collected customs duties to support various initiatives and programs (Customs duties mean revenue, n.d.). The remaining portion, approximately 7 billion euros, was retained by individual Member States, allowing them to address national priorities. This distribution highlights the dual purpose of customs duties in supporting both European Union level and Member State fiscal needs. In addition, we also must highlight the other two categories of taxes which are: excise duty taxes and Carbon Border Adjustment Mechanism tax (CBAM) which is one of the newest taxes to be fully applied from the January 1, 2026 (Carbon Border Adjustment Mechanism, 2024). Therefore, it can be stated that the values showed in the Table 1 represent the statistical basis for calculating customs taxes on goods entering the European Union, specifically Value Added Tax and customs duties. While the Value Added Tax is collected by businesses at each stage of production and distributed to national tax authorities, the customs duties are collected by customs authorities at the border of the European Union, with a significant portion allocated to the European Union budget.

Additionally, excise duties and the upcoming Carbon Border Adjustment Mechanism (CBAM) will further contribute to the tax system of the European Union, ensuring both revenue generation and alignment with environmental goals.

Concept of customs taxation in the context of international trade

Goods moving across national borders, whether between EU and non-EU countries, are governed by a range of legal and tax requirements intended to support the smooth functioning of the single market (Barbosa, 2023). Within these regulations, customs taxation serves a crucial role in overseeing and directing the flow of foreign trade. According to Nenko et al. (2022), the main functions of customs taxation are illustrated in Figure 1.



Source: according to Nenko at al., 2022

Fig. 1. Functions of customs taxation

As shown in Figure 1, customs taxation performs three main functions: regulatory, protective, and fiscal. The task of the regulatory function is to control the cross-border movement of goods, ensuring that this movement complies with national laws. The protective function safeguards local industries from foreign competition by imposing tariffs on imports, while the fiscal function increases state revenue through customs duties, thus affecting trade costs. These regulatory, protective and fiscal functions together shape the dynamics of international trade and the stability of the domestic market (Nenko et al., 2022). Cantens and Raballand (2021) notes that customs taxation in international trade, through transparent, standardized, and uniform application, can function as a stabilizing mechanism, reducing social inequality and increasing political accountability. Customs taxation is also seen as one of the most important tools for regulating a state's foreign trade policy, according to Maksymenko (2023). He notes that customs policies form the foundation of economic methods used to regulate foreign economic activity. Keskin and Bağci (2022) emphasize that international trade is a very valuable resource not only for individual countries but also for the global economy. Initiatives aimed at reducing national customs barriers accelerate the flow of international trade and strengthen connections within the global economic network.

Customs taxes have historically evolved from national to supranational taxes, and now customs taxation is imposed by international institutions that regulate the taxation of import and export transactions (Gálvez, 2024). Tariffs, one of the earliest and longest-standing forms of taxation, have played a key role in regulating international trade. These government-imposed taxes, collected by customs authorities, apply to imports and exports. Tariffs are divided into import and export duties, with the duty-paid value determined by the actual transaction price—the price paid or payable by the buyer under general trade terms (Dai, Wang, 2019).

Important tools for maintaining the balance of trade and promoting foreign economic activity are tariff and non-tariff customs measures, which allow countries to protect their domestic industries and actively participate in the global trade network (Karpenko et al., 2020). Research shows that reducing tariff rates and liberalizing customs areas can have positive impacts on national economies, such as stimulating economic growth (Karpenko et al., 2020).

The main role in the administration of indirect tax systems at the border, including VAT and excise duties, is played by customs. Customs taxation is usually applied according to the destination of the goods, also ensuring that products intended for domestic consumption are taxed equally whether they are produced locally or imported (Bremeersch, Montagnat-Rentier, 2022). In many regions, tariffs and VAT function as significant revenue streams for governments. As González Aguirre and Del Villar (2022) explain, "tariffs are a significant source of public revenue, similar to VAT, which is often a primary source of government income in the region."

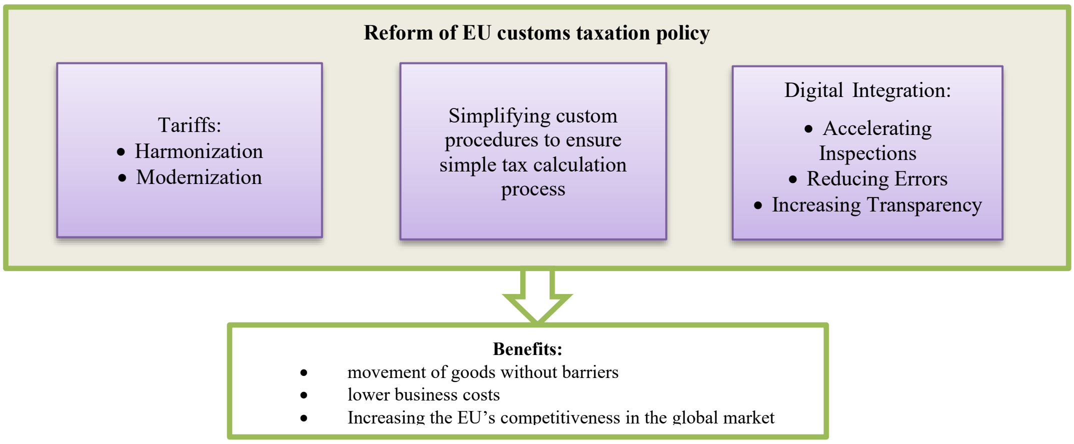
To support their economy, some countries implement special trade policies. For example, since 2007 Ecuador uses a selective import substitution policy to boost domestic production and reduce the trade deficit. This shows how tariffs can be not only fiscal tools, but also protect local markets from excessive foreign competition (González Aguirre, Del Villar, 2022).

Although the global trend toward trade liberalization may reduce customs revenue over time, tariffs will remain an important source of income for many countries, especially in developing economies (Montagnat-Rentier, Bremeersch, 2022). According to Bakaeva (2015), different groups of countries regulate customs and customs taxation differently, considering their national interests. Customs tariffs in developed countries are generally low, while those in developing countries typically range from 15% to 20%. Higher tariffs allow these countries to develop their economies, strengthen industry and increase budget revenues. Many developing countries that have joined the World Trade Organization officially set high tariffs, but in practice often apply lower tariffs, leaving the possibility to increase them if necessary (Montagnat-Rentier, Bremeersch, 2022).

Nenko et al. (2022) claim that countries with strong economies have clear export and import payment rules that meet international standards. According to Keskin and Bağci (2022), in modern international trade practice, import taxes are the main focus, while export taxes are not significant. Nenko et al. (2022) also point out that the primary emphasis is on import duties, saying that export duties are often removed to encourage domestic producers to participate in global markets and to protect the economy from an influx of imports.

Recommendation for improvement of EU customs taxation policy

Summarising the literature review carried out (Bakaeva, 2015; Cantens and Raballand, 2021; Karpenko et al., 2020; Nenko et al., 2022; González Aguirre and Del Villar, 2022; Keskin and Bağci, 2022), the framework of recommendations is presented (see fig. 2).



Source: compiled by authors according to Bakaeva, 2015; Cantens and Raballand, 2021; Karpenko et al., 2020; Nenko et al., 2022; González Aguirre and Del Villar, 2022; Keskin and Bağci, 2022

Fig. 2. Reform of EU customs taxation policy

Based on the literature analysis, recommendations to improve the effectiveness of the EU customs taxation policy include:

- harmonizing and modernizing tariffs;
- simplifying customs procedures;
- strengthening digital integration.

The literature review has shown that these factors are crucial for promoting smooth movement of goods, reducing business costs, and increasing the EU's competitiveness in the global marketplace. Additionally, these reforms could contribute to the EU's goals of economic integration and market unity by facilitating cross-border transactions.

Reducing and harmonizing tariffs simplifies the trade process and helps reduce costs for importing and exporting companies by ensuring a level playing field across the EU, this strategy enables international trade participants to operate more efficiently and at lower cost. This approach also attracts foreign investment by creating a predictable and fair trade environment, enhancing the EU's appeal in the global marketplace. Digitization and technology integration are also important elements that will not only speed up the product inspection process and reduce the risk of errors but also increase the transparency of customs procedures.

The implementation of these measures in the EU would make it possible to create a more flexible customs policy that adjusts to rapid changes in the global market. This policy would help to promote stable long-term economic growth. It would also be beneficial as it would make the trade process smoother and more efficient for European companies. By improving these systems, the EU customs system will be able to adapt to changing trends in global trade. This will include the growth of e-commerce and the emergence of new international trade agreements. This will help ensure that the EU remains competitive and resilient, while giving European businesses the support they need to thrive in an increasingly interconnected world.

Conclusions

1. The European Union's customs taxation policy is structured to support both the initiatives of the European Union and the fiscal needs of every individual Member States, primarily through Value Added Tax, customs duties, and excise taxes. With the addition of the upcoming Carbon Border Adjustment Mechanism, the European Union continues to strengthen its tax system to balance revenue generation with environmental objectives.

2. Customs taxation in international trade is an essential tool for maintaining economic stability and ensuring state revenues. It plays an important role in regulating the movement of goods, protecting local producers from foreign competition and generating funds for the budget. Customs duties, such as tariffs and VAT, directly affect the prices and competitiveness of goods, thus affecting the economies of both exporting and importing countries. Thus, customs policy is an important tool that contributes to the management of trade flows and the implementation of economic policy goals on an international scale.

3. To increase the efficiency of international trade, EU customs policy should be modernized and more digitized. Unifying and reducing tariffs across the EU would help simplify trade processes and reduce costs for businesses, while

digital tools would speed up inspection processes, reduce the risk of errors and increase procedural transparency. After implementing these measures, the EU customs system would become more flexible and more adaptable to global market changes, promote economic growth and help strengthen the EU's competitiveness in global trade.

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